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August 05, 2024

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Mumbai-400001
Security Code- 539978

National Stock Exchange of India Limited
"Exchange Plaza", Bandra-Kurla Complex,
Bandra (East),
Mumbai-400051
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
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Kundan K Lal
Company Secretary & Compliance Officer

Quess Corp Limited

Q1 FY 2025 Earnings Conference Call

July 30, 2024

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. KUSHAL MAHESHWARI – HEAD, INVESTOR RELATIONS AND STRATEGIC FINANCE – QUESS CORP LIMITED
MR. ANAND SUNDAR RAJ – PRESIDENT, OAM – QUESS CORP LIMITED
MR. PINAKI KAR – PRESIDENT, GLOBAL TECHNOLOGY SOLUTIONS – QUESS CORP LIMITED
MR. SEKHAR GARISA – PRESIDENT, PRODUCT-LED BUSINESSES – QUESS CORP LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Quess Corporate Management Limited Q1 FY 2025 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Securities Limited. Thank you, and over to you, sir.

Balaji Subramanian: Thank you, Neha. Ladies and gentlemen, good morning and thank you for joining us on the post-results Conference Call for Quess Corp. It's my pleasure to introduce the senior management team of Quess 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. Pinaki Kar, President, Global Technology Solutions; Mr. Anand Sundar Raj, President, OAM; and Mr. Sekhar Garisa, President, Product-led Businesses. 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 the proceedings forward. Thank you, and over to you, Kushal.

Kushal Maheshwari: Thank you, Balaji. Good morning everyone, and thank you for joining our Q1 FY 2025 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 risks faced by the company. Please refer to slide number two of investor presentation for the safe harbor clause.

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

Guruprasad Srinivasan: Thank you Kushal. Good morning, everyone, and thank you for joining us today. We started fiscal 2025 in a robust way and delivered a healthy performance during the quarter. Though Q1 historically has been seasonally the weakest quarter, this quarter marks the first time we have achieved a revenue run rate of INR 5,000 crores and a resilient Q1 performance with a substantial headcount addition of over 30,000 plus associates. EBITDA grew over year-on-year basis by 19% and saw a sequential dip of 6% over Q4 due to a seasonal slowdown in our higher margin OAM and GTS businesses. In addition to business seasonality, the impact of wage is also observed in Q1. We expect margins to improve as these businesses recover from Q2 onwards.

Key financial highlights for the quarter. We added about 30,000 associates and the headcount stands at 597,000 during the quarter. We recorded a consolidated revenue of INR 5,003 crores which has crossed the INR 5,000 crores milestone with a growth of 9% on year-on-year basis. We delivered an EBITDA of INR 184 crores, a growth of 19% year-on-year. Year-on-year improvement in margins was led by reduction in Foundit burn with the sales growth and optimized market spends and improvement in OAM margins through higher contribution by telecom and infra business and profitability focus in other businesses. We continue to implement cost reduction and productivity improvement initiatives to optimize our business operations further.

In preparation for the announced demerger of Quess, we are also setting up leadership and internal processes. In this regard, I am pleased to welcome Gurmeet Chahal, who has joined us as CEO of Quess GTS platform and will eventually lead the Digitide entity. He's been early proponent of integrated BPO and tech offering throughout his career. Under his guidance, the GTS platform will expand its global BPM and IT services footprint.

Now let me talk specific updates by platform.

Starting with workforce management. The platform headcount reached 4,85,000. This includes people who are also serving notice period, which is about 32,000 during the quarter. Adding a healthy 30,796 associates during the quarter, addition in Q1 is more than what we added in last two quarters, that is, combined of Q3 and Q4.

Revenue growth for a period was about 12% year on year. EBITDA margins declined to 2.4% as the business mix tilted towards robust addition from general staffing business against modest growth coming out of IT staffing and overseas staffing. The platform added 91 new contracts during the quarter, with an annual contract value of INR 510 crores.

Now moving on to general staffing. The business added 29,432 associates by headcount during the quarter, led by logistic, consumer, retail and, telecom, and manufacturing. The business started the year on a very strong note by adding 82 new logos in Q1 itself. Over the last years, manufacturing sector has been robust in hiring, and most of our efforts have collectively capitalized the momentum in this space. However, hiring in the sector was slower during the quarter, with only 4,000 net adds as free flow of talent across was disrupted due to general elections. With strong, open mandates and internal capability, this sector will be a key focus driver as we move forward. Quess has been the front runner in enhancing its sourcing through Job Spots. We did announce this last quarter, and it is a process where, digitally, we enable people located within the proximity of distance to the key manufacturing clusters designed to streamline recruitment for prospective job seekers. We recently launched our third job spot in Chakan, after Hosur in Tamil Nadu and Narsapura in Bengaluru, and we are witnessing good traction. We are now looking to expand into the supplier states like UP, Bihar, Orissa, Jharkhand in the coming quarters. We have invested in leadership to strengthen our vertical strategy approach, allowing us to focus more on customer acquisition, retention, fulfilment specific to this segment. Our widespread geographic reach is a testament to our sourcing and deployment capabilities. More than 70% of gross additions during the quarter were from Tier 2 and beyond. Engagement through our Digital offerings continued as we launched DASH+, which provides learning and development, skilling and assessment, and financial inclusion products at the click of a button.

Coming specific to IT staffing business, we experienced a positive trend in headcount growth after a few quarters of decline. We added over 300 associates. We anticipate continuing this growth trajectory as we have strengthened our GCC capabilities. The IT industry is expected to recover in the second half of the year. GCCs witnessed major hiring and we now have 69% of our revenue from GCCs. Our focused strategy to leverage GCC opportunity has resulted in a healthy margin profile for IT staffing and paved a path towards capturing a larger market share in GCC. The open mandates at 1,500+ level signal a positive outlook in the coming quarters

Moving on to Global Technology Solutions platform. GTS registered a revenue growth of 1% quarter-on-quarter on a seasonally larger Q4 base in Connect and Allsec business. The quarter's EBITDA margin is 17.5%, well in line with sustainable range between 17% to 18% band. The highlights specific to the platform, start with the CLM business. This business continues to witness healthy growth with 20% year-on-year and 7% sequential growth led by domestic and international mix. Allsec’s CXM vertical delivered a strong topline growth and a higher international business salience. The non-voice BPM business saw a dip during the quarter. Collections business actively peaked in Q4, followed by a seasonal slowdown in Q1 FY25. Likewise, the EXM vertical in platform services experienced a sequential decline due to year-end one-time vouching activity in Q4. Overall, EXM business remained strong with 4.1 million payslips processed during the quarter which translates to 10% year-on-year growth. Overall, the platform closed the order book at almost INR 82 crores ACV, adding 42 new logos to the key drivers where BFSI and retail segment continues to be the key driver.

Moving on to Operating Asset Management. Following year-long initiatives to enhance productivity and margin over past years, the OAM platform grew 6% with seasonal slowdown in Food and Beverage and telecom network maintenance businesses. The platform recorded year-on-year margin improvement of 30 basis points, with increased contribution from telecom infra and industrial O&M businesses. However, there was a sequential dip in margin owing to loss of business due to seasonality in the F&B and Telecom business on back of 5G deployment slowdown in that space. I would like to give you some highlights on O&M business. IFMS added 23 new logos with an ACV of INR 50 crores, predominantly coming from logistic, e-commerce and industrials. While security services realization was nearly flattish, the business registered appreciable margin expansion as we rationalized few low-margin contracts. Telecom infra registered a marginal growth sequentially as 5G deployment was seasonally slower in Q1. We have invested in sales and leadership to enable to have a vertical-specific, sharper focus on profitability as we move forward.

Moving on to product led business. The revenue and EBITDA in this segment excludes our Break-fix business, Qdigi, which we divested in Q4. Foundit saw a sales growth of 30% year-on-year and revenue growth of 7% year-on-year. Foundit has significantly reduced its cash burn. Our operational metrics are up 12% sequentially on recruiter based consumption, which gives us confidence as job postings are up by 54% quarter-on-quarter. Candidate profile updates are up by 86% quarter-on-quarter, and CSAT remains healthy at 90%. We are confident of healthy 25% plus top line growth with reduced cash burn for the year.

Moving on to organization updates. I'm pleased to share that our workplace has been recognized as a great place to work for the fifth consecutive year, with a rank of 32nd, our highest ever. As a 'people first' organization, this achievement reflects our collective dedication to foster a culture of respect, growth, and innovation.

Our demerger plan is on track. We expect approval by stock exchange, after which NCLT proceeding will commence. Internally, we are concurrently enhancing our leadership, refining the processes and bolstering operational capabilities to empower each entity to establish a leadership position in their respective sectors after they demerge.

Before concluding, I would like to highlight few factors that will be instrumental in driving growth at Quess over next few quarters. The government's focus on job and employment and this financial assistance to companies adding job will give Quess, India's largest domestic employer, many opportunities for growth. The private sector investment cycle should kick in with employment and job creation being on everybody's mind. The strengthening of leadership, particularly in GTS segment is expected to give our BPM business more tailwinds as it intensifies its go-to-market approach. The overall organization, strengthening and optimizing that Quess has undertaken in last few months is showing result, and we expect this to continue leading up to the demerger. So starting off with a robust start to the year, we are looking forward for this year to be the best year for us before we get into the demerger.

So, with this I'll now hand over to Kamal for financial updates. Over to you, Kamal.

Kamal Pal Hoda: Thank you, Guru. I'll first take you through financial numbers before getting into segmental performance and other corporate updates. We delivered record revenue of INR 5,003 crores during the period with a growth of 9% year-on-year and 2% quarter-on-quarter. If we normalize for the divestment of Qdigi done in Q4 of last year, revenue growth will be at 11% year-on-year and 4% quarter-on-quarter. EBITDA stands at INR 184 crores, a growth of 19% year-on-year and a decline of 6% quarter-on-quarter.

Our operating margins are at 3.7%, which is 33 basis points higher on a year-on-year basis, driven by high contributions from margin accretive businesses in GTS and OAM platforms and reduction in burn in foundit business. On a sequential basis, there is a 30 basis points decline due to seasonality in few of our businesses like Food and Beverages and telecom services, and also annual wage increase for our core employee.

Profit after tax increased by 132% year-on-year and 14% quarter-on-quarter to INR 112 crores. Our PAT growth is significantly higher than EBITDA growth because of higher other income, lower interest costs, and this also includes a one-time exceptional gain of INR 17 crores from divestment of our Labor Law Compliance by subsidiary Allsec Technologies. EPS for the quarter is INR 6.9 per share, a 116% year-on-year growth and a 10% quarter-on-quarter growth, in line with the PAT growth.

Our commitment to cash management and debt repayment continued in the quarter as we repaid close to INR 100 crores of debt, which has brought down our gross debt position under INR 300 crores. Our net cash position has also improved by 11% sequentially.

Moving on to platform-wise updates. Starting with workforce management, we delivered a topline of INR 3,622 crores, which is up 12% year-on-year and 4% quarter-on-quarter led by headcount-led growth in general staffing business and IT staffing supported by GCC hiring. EBITDA is at INR 89 crores, grew 6% year-on-year but declined 3% sequentially. EBITDA margin has seen an 18 basis points drop sequentially to 2.44% due to wage inflation and higher business mix of general staffing vis-a-vis professional staffing. With IT staffing gaining momentum and focus on value-added services in general staffing, we expect margin improvement in subsequent quarters.

Moving on to Global Technology Solutions platform. The platform clocked a revenue of INR 610 crores, an increase of 8% year-on-year and 1% quarter-on-quarter. Revenue was nearly flat sequentially due to higher base caused by year-end activities in Q4. EBITDA is at INR 107 crores, a growth of 7% year-on-year and a decline of 6% quarter-on-quarter. Consequently, EBITDA margins were at 17.5%. Platform and CLM business delivered good performance, and our focus remains on developing margin accretive service lines for the platform.

Moving on to Operating Asset Management platform. The platform delivered a revenue of INR 733 crores, a growth of 6% year-on-year and 3% quarter-on-quarter. Growth was led by telecom infra and industrials on year-on-year basis, while IFMS and industrials were key drivers sequentially. Segment EBITDA is at INR 35 crores with a growth of 14% year-on-year and a sequential decline of 9%. EBITDA margin at 4.8% is an increase of 33 basis points on year-on-year basis, driven by higher contributions from telecom infra business and rationalization of low margin accounts in the security business. However, margins declined sequentially by 64 basis points owing to seasonality in high margin businesses like food and beverages and telecom infra.

In the product led business, adjusted for our divestment in Qdigi, revenue for the quarter was INR 39 crores, a growth of 6% year-on-year. Foundit sales growth is robust at 30% year-on-year. EBITDA was a negative INR 8 crores while on a year-on-year basis, there is a steep improvement in cash burn levels owing to strong sales growth and optimized marketing spends in Foundit. There's an increased burn quarter-on-quarter mainly due to higher marketing spends.

Moving on to corporate updates. I'll start off with tax related matters. As earlier notified on the stock exchange, we received an income tax refund of INR 107 crores for FY 2018-2019. Additionally, DRP proceedings for FY 2019-2020 have also been completed. In line with the previous orders of FY 2017-2018 and FY 2018-2019 reductions under the principal matters, that is, Section 80JJAA and Goodwill have been disallowed. We believe that tax treatments availed by the company are valid and we intend to contest this position and the interpretative stance on these sections on merits.

On updates regarding the demerger, we are progressing on track towards the proposed three-way demerger of Quess Corp. We are enhancing our leadership and boosting operational capabilities to empower each entity to establish a leadership position in their respective sectors after the demerger, and post approval by the stock exchange we shall be filing the application with NCLT.

The Union Budget recommendations presented a forward-looking approach towards generating formal employment with key emphasis on social security and skilling. These initiatives, coupled with an increased budgetary allocation towards PLI, Mudra schemes for MSMEs and capital expenditure will create many employment opportunities in the formal sector. As one of the leading private sector employers we are optimistic about the budget initiatives towards accelerating India's formal job creation, enhancing employability through skill development and education.

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

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

Deep Shah: Hi. Good morning. Thanks for the opportunity. Sir the first question is around the higher share of ITeS that you have reported in the domestic IT staffing segment in your presentation. Is it possible to give the headcount here? This is to actually better understand whether there is a net headcount improvement, IT has bottomed out or is it just a mix change?

Guruprasad Srinivasan: So, we have seen a net headcount addition growth in Q1 in IT specifically in IT staffing in India. However, in this business we would love to tell more on margin and the kind of contribution that this can bring in rather than the headcount. So, this business contributes almost close to about 9.5%-10% EBITDA to our total workforce division, but however, good to see that mandate level have gone up. Compared to Q4, we were about 1,100, now we are about 1,500 so almost 36% plus in terms of the mandate recovery.

Largely 70% of our deployment goes to GCCs, across all sectors in GCCs and balance towards other IT services and other IT companies. So that's the breakup.

Deep Shah: So I'm saying just to reconfirm the numbers you quoted are for specialized staffing right, the 1,100 versus 1,500?

Guruprasad Srinivasan: Professional IT staffing, India.

Deep Shah: Perfect. Sir second, I heard Kamal say that how Foundit, I mean, in PLB business there was increased marketing there and therefore the sequential increase in losses, but fair to say for the full year we should break even in this business especially with the sale of Qdigi now behind us?

Guruprasad Srinivasan: Certain indicators that sets us how we are progressing. And if you look at our job postings, are up by 76% year-on-year. And the profile update has moved from 3.8 million to about 13.4 million which is 250% up. So, when you have seen both demand and supply side slowly getting active onto the platform that gives us the confidence as to ultimately it has to convert into revenue and we are on the plan. I'll also get Sekhar to add further on this.

Sekhar Garisa: Yes. Guru mentioned specifically to your question Deep, that the Q1 numbers are in line with the annual operating plan that we have. Whole of last year we had a negative INR 55 crores EBITDA and this year the plan firmly is to turn break-even on a full year basis.

Deep Shah: Right sir. Very useful. Sir one last question, if I may. So I'm sure that the budget proposals are very encouraging and we will obviously be a net beneficiary. Sir, any early estimates or early comments on how do you foresee the benefits of this. Given the competitive scenario, would it be fair to assume most of the benefits will be demanded back by our customer. Whatever your early thoughts are? I understand the fineprint may not be out, but you are closer to the labor ministries than we are. So your early thoughts?

Guruprasad Srinivasan: Absolutely Deep we are also driving this centrally across various others putting a work stream around it. So first of all it's great to see so much of emphasis coming on specifically to workforce skilling and intensifying formal employment. So, I think there's a big shift towards thinking in itself. So this further has various schemes as part of the package, the scheme A, scheme B and scheme C impacting an individual fresher who is coming onto the job, to employers who are going to encourage freshers coming into the system and creating those employments. Number three specific to manufacturing and internship. Fourth one female workforce participation. Special attention focus towards the dormitories and better living for people working in manufacturing and better stay or conditions, etc. And as you rightly said we are very closer to this particular space and each one definitely over a period of time is expected to add about 4 crores job and we as Quess definitely stand to gain some portion of this definitely.

If you look at few indicators again the consumption in terms of FMCG, rural consumption has gone up. It has out beaten the consumption for urban and which also sets that from our trajectory if you look at, our demand from Tier 2, Tier 3 is also increasing slowly. The capex investment which is going to get into various segments will actually encourage employment as well as our integrated facility management businesses to do more and customer lifecycle management to kick in.

So, we are quite happy to see these announcements and we are also dissecting this to see how do we drive this across various streams and get closer to this in terms of working with the government in terms of being part of the implementation team as well. So Kamal, you want to add anything?

Kamal Pal Hoda: No, I think you fairly covered Guru. Deep yes, you are right. We also await the financial guidelines and the rules of various schemes and the implementation. But as Guru said Quess being one of the largest employer in the country we believe that we can partner with some of these schemes and the government for the formal job creation. And we are looking forward to it during this financial year.

Deep Shah: If I could just add one follow-up. So given that the higher watermark of salary of INR 1 lakh is capped. Would it be fair to conclude that even our GTS headcount, we could get benefits there also because I guess there the competition to have headcount and therefore pass on benefits would be materially lower or that assessment is erroneous?

Kamal Pal Hoda: So, you are right since the wage thresholds this time are higher and it is capped at INR 1 lakh. The effect of this towards all the verticals of Quess should be visible. But like I said, we'll have to wait for the financial rules and the guidelines to come and then asses as to what will be the financial impact of this for the company.

Deep Shah: Perfect sir. Thank you so much. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Balaji Subramanian from IIFL securities Limited. Please go ahead.

Balaji Subramanian: Congrats on a good quarter. So I have two questions. So one is on the workforce management platform margin. I do know that you have reiterated in the past that the absolute EBITDA is the number which one should focus on. But nonetheless, I can see that after remaining steady at 2.6% for the preceding four quarters it has dipped to 2.4% in this quarter. So is it because of the seasonality you mentioned and should we expect this to go back to the 2.6% level as we move into subsequent quarters?

The second question would be on the associate to core ratio that you have reported for the OAM platform. I can see that there it has been slightly trending down. It used to be 107 about a year back and now it is at 98. So any comments there? And what are you doing to improve that. That would be helpful. Thank you.

Guruprasad Srinivasan: Sure. Balaji, with regards to workforce management, a couple of pointers there. One is, of course, as you know our strength in terms of sourcing and enhancing the sourcing capability has helped us to accelerate our net hiring that we do through sourcing channel. And if you look at we have been investing in that space and this is running up to the season between Q1, Q2 and Q3. We will continue to invest onto the sourcing channel and all. So, from that standpoint it's by plan and by design those investments have been made. Second, specifically for manufacturing job spots which I did call during my speech. We are seeing good early wins coming in from these job spots, which are closer to the customer workplace. These are kind of centres which are digitally enabled for somebody to walk in and get a job in 30 minutes. So we have already gone live with almost about four job spots now and we have a few more slated, so that's the other investments that we are doing specific to general staffing.

Then, of course, wage inflation comes into in Q1 which is a normal phenomenon. So as we move forward we will definitely recover some basis points about 20 basis points back in margins because IT staffing is opening up and we are seeing green shoots as the mandates have gone up. As we enter Q2, Q3, we will definitely see an uptick coming from there. And of course, international geographies are muted a bit. Singapore which is largest for us in terms of IT staffing, it is almost flat because they are running up to the elections and the number of people, expats, who could be recruited, there are restrictions and all of that. So by Q4 they should open up. So, if I were to look at where we are, I think we have subsumed the cost in Q1as we move forward, there could be some basis points that will help us as we move forward.

With regard to specifically on OAM core to associate ratio, it's a range that we have been hovering. We should not look at a pointed number, anywhere between 98 to 110 is a great number to be in that also shows the kind of productivity and efficiency that we are bringing in and we are in that range for almost about more than a year now. And as we invest back into strengthening our vertical approach and investment in sales, if you look at OAM as a platform we have been calling out that the only focus that this platform needs is acceleration in sales. And we have added that capacity across the country in terms of strengthening our sales team which has also reflected in the ACVs that we have got in OAM. We have signed about 27 contracts worth INR 52 crores in Q1 in itself. So I think, we are not really worried about it. I think it's a good investment that we have made. It will be in a range between anywhere between 95 to 105. So that should be the range.

Balaji Subramanian: Thank you. That answers my questions and all the best.

Guruprasad Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Chintan from Girik Capital. Please go ahead.

Chintan: Yes. Okay. Congrats on the good set. Just coming to the WFM first. On the margin front again, we had last quarter guided to drive the margins upward to say 20 basis point improvement we were targeting. Now, obviously, it's understandable that this quarter is seasonally weak and a lot of skew is towards general staffing and all that is slight dip in margins. But do you foresee that on an average or at the exit we will start to hit improvement in margins going forward?

Guruprasad Srinivasan: So, Chintan, as we keep guiding the best way to assess general staffing is to see how much gross margin to EBITDA conversion is happening. That's how we look at internally. So we continue to still be around 67% in terms of gross margin to EBITDA because what happens in general staffing is the wage inflation, the revenue growth has a wage aspect of almost about 70% coming in from wage increase as well as the sales mix is about 30%. So that is something that you need to look at. So, if I were to look at overall WFM as a platform, two key events. One is IT staffing opening up as we step into the further quarters will help us to expand margins a bit. And the international staffing, as the borders open up will help us to take this margin to a few basis points.

With regard to general staffing, I think we are doing well in terms of our net adds. Q1 in itself we have added at a platform level, if I take general staffing around about 29,000 headcounts that we have added. We will measure them purely by net adds that they do and there are two type of contracts that we sign, flat fee and a percentage fee and collect and pay and upfront. Our collect and pay is still very healthy almost about 80% of our contracts is collect and pay and 20% is towards upfront.

So the other indicators are perfect. But what happens in Q1 is when there is wage hike there would be impact on percentage and you will have a similar kind of reflection coming in Q3 also when there is high incentives that gets paid on a flat fee basis, it will have an impact on the margin. So the best way to look at is gross margin to EBITDA conversion and that's pretty strong and healthy.

Chintan: Okay. On the working capital when we say 80% of the business is collect and pay. And ideally, given the size of the business we should operate at a negative carry or negative working capital kind of situation. If I say that the DSO days for general staffing or the working capital days for general staffing as we mentioned in the presentation at 25 days. What does it entail to this largely the remaining part of business which requires larger capital to operate?

Kamal Pal Hoda: Yes, so Chintan the platform level DSO days which I mentioned in the presentation is 25 days. It's a combination of obviously the general staffing business and the other business which is into IT staffing and international staffing where the DSO days are higher. Within 25 days also there is a blend of the billed days and the unbilled days. And so in this line of business we've got unbilled days of close to around 10 days and the billed days is around 15, so that's the breakup. And this will keep being in this range it will keep moving basis the business mix of general staffing vis-a-vis other businesses.

Chintan: Okay. But I didn't understand because if collect and pay is 80% in general staffing and the DSO days for general staffing is 25 days, so I'm just wondering the 20% fees carries much larger collection days. That's what my point was. Anyways, I'll join back in queue for any further queries. Thank you.

Kamal Pal Hoda: Sure.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Hello sir. Thanks for the opportunity. In terms of the employment and skilling initiatives that has been announced because obviously it is positive for the staffing company, but if you can throw some more light in terms of the various initiatives in terms of Scheme A, Scheme B, and Scheme C, obviously it is going to push volumes. But is it also going to help us in generating some more margins from here because it also involves a lot of compliance related work in which we have to collect from the government and pass them to the employer and the employee. Are we also applying to get some extra for managing these schemes for the government and also from an overall perspective on the skilling program and on the internship opportunity that we announced. So when we expect these to show up in the numbers and obviously the manufacturing and the MSME side, are we planning to invest in this phase?

Guruprasad Srinivasan: Amit, I mean I'll answer this. So, first and foremost, as I said, this has been completely focusing on formal employment creation and specific segment in terms of manufacturing, participation of event, workforce and skilling. So these are four areas budget has been really focusing about. If you further look at, it has multiple packages in this or schemes which has been created, something that is direct benefit transfer to employees. So some portion of it goes into employees directly, where they are encouraged to come into the formal workforce and work for at least minimum 1 year in that space. So it is not only hiring and deployment. It's about holding them and getting consistency in those workforce. So I think that is where one of the scheme is focusing.

The second scheme is focusing on employers' participation in terms of ensuring that we hire a fresher and we are capable of training them and deploying them into the job. I think that's the second area where employers are encouraged. The third area is where specifically focusing for the manufacturing segment as to how freshers can be hired, trained and deployed. So these are three different packages. Over and above to encourage women workforce participation for a better living conditions, the working women hostels in collaboration with industries are being set up and it has some element of CSR fund etc., into it.

The last one is largely again focusing on the skill shortage and skilling gap. So, we are mid of this transformation of an individual journey from informal to formal. They have to pass through somebody like us. And we are in midst of this ecosystem, getting people from farm job to nonfarm job or moving them from informal to formal. And of course, once we hand-hold and jointly between us and customers, then we become a kind of stepping stone for them to build their career as they move forward. So, while these are the schemes that have been announced. There is definitely a lot of challenge on the ground in terms of implementation.

So we have to work very close to the respective ministries. We are also doing that in terms of ensuring that we come together for implementation of this. So, as Kamal said, the fine prints will have to get into and the models have to get created. However, this is going to start from October onwards as and when the budget, the conclusion or the rollout happens. So we are also working as a revenue stream. But yes, this is something that we definitely can't take our eyes off, we are in midst of in this segment, and we'll continue to have a probably, as I think one of your question that do we know what we are going to earn out of this? So we're not budgeted any of this in the current quarter whatever comes it comes. But of course, we are going to put a separate team to drive this. Kamal do you want to add anything?

Kamal Pal Hoda: No Guru, comprehensively covered.

Amit Chandra: Obviously, I was trying to understand what investments are required in this? Obviously, now we will get clarity when we get the final print, but as structural story, obviously there was about the clear indication that the shift from unorganized to organized can accelerate with this, that has been there over the last 5 years.

But maybe it can accelerate with these initiatives coming in this but more from the margin perspective are we seeing some kind of margin improvement from these initiatives, or as you shift from the unorganized to organized sector. And also in terms of the manufacturing side, whether the margin profile in the other segments like retail is similar to what we have in the manufacturing sector

Kamal Pal Hoda: So Amit, margin definitely, when these schemes are implemented, it should definitely add to the margins, because some of these schemes are like Guru explained, direct benefit transfer to employees. Some of these schemes are also towards the EPFO contribution to the employers. So this will definitely add to the overall company margin. But the quantification as we said, we'll have to wait for the detailed guidelines.

Amit Chandra: Okay. And sir, if you can throw some more light on the IT staffing, obviously we have seen some recovery. But what we are hearing from the IT commentary that the hiring is expected to improve after next quarter kind of flattish or decline. So how do you see the domestic IT staffing as we need to grow from here and also in terms of margins. If you can elaborate on how the margins will look like?

Kushal Maheshwari: So Amit, as Guru had said in his opening speech, we are seeing some green shoots and probably it should recover in the second half of the year. Anything else Guru if you can add to this? Please give him some guidance on that.

Guruprasad Srinivasan: Sure. Amit as I said, open mandates in IT, we have seen going up between Q4 to Q1. And we also added net headcount of 300 plus in Q1. So with that note, as we move forward, the average base that we operate in IT anywhere between INR 75,000 to INR 80,000 per month and definitely at a higher margin it has to be attractive in terms of overall margin improvement. And as I said, international geographies as and when they open up, I also alluded to it what's happening in Singapore currently, that's the second largest IT staffing that we have after India. And it's again a high margin business there. Till Q3 we see little muted but Q4 is when we anticipate to open. So, by the end of this year, we should definitely march towards that to at least 20 to 30 basis points.

Amit Chandra: Okay, sir. Thank you.

Kushal Maheshwari: Thank you Amit.

Moderator: Thank you. The next question is from the line of Riya from Aequitas Investments. Please go ahead.

Riya: Thank you so much for the opportunity. My first question is on the manufacturing and industrial. So we are hearing a lot of commentary from the industry there is a lot of shortage of labours and also semi-skilled to skilled. So will this help us? Or what kind of growth are we seeing in that segment?

Guruprasad Srinivasan: Sure. You're right. If you look at, in my speech, I specifically alluded to job spots. There is a primary challenge on the source destination and the deployment destination where workforce in India are deployed. So most of these manufacturing clusters are not in the main CBD, they are in the outskirts across various clusters. And specifically we are working with the modern manufacturing companies. These are not traditional sites where we'll have bulk deployment under every large unit. So, considering that one of the key challenges is to create the sourcing hub and job spot is something that has given an early success to us.

We are going closer to those clusters, manufacturing clusters, setting up the satellite office there ensuring it's fully digital and somebody who's walking in and of course, lot of groundwork happens there in terms of getting the footfall into place. And once they come in, then digitally, proper credentialization of the candidate and ensuring that they go through the process. I mean, the hiring process is entirely different for a manufacturing than what we hire for any other sector. So we have to look at a lot of elements like hand to eye contact, finger dexterity. So based on that, the shortlisting will happen and somebody will be able to get a job in a much quicker and faster time being closer. So, we will be closer to customer and the associates who would be. And also there's a lot of local employment that has to happen depending upon which neighbouring state these manufacturing units are in. So, we have got that right with four of our job spots, which we have launched and we are moving ahead. As we move step into Q2 and Q3, we will have by end of this year, we'll have about 12 job spots that we will be hiring for our customers from.

So it's a challenge and we have in last three years from where we were, manufacturing as a sector alone has crossed almost about 65,000 people by deployment. And with capex investment coming into this space, we cannot take our eyes off. And as a first mover, I think we will definitely be front running in this space as industries investment on capex picks up.

Riya: Got it. And in terms of IT hiring as you're seeing improvement significantly and the mandates have also increased. Also in your commentary upon the IT companies that they have, like TCS is going with 40,000 and Infosys at some 15,000, 17,000. So what kind of growth rate or this will lead to better margin because considering IT has been a good margin business for us, so what kind of margin improvement do we see because of this? And basically because of data centers and semiconductor facility coming there's a lot of shortage of manpower. So what are your views on that sector also?

Guruprasad Srinivasan: Sure. I mean, IT definitely is margin accretive business, as I said the average wage there is in a range of INR 75,000 INR 80,000 per associate per month. And definitely as in the talent, I mean, we work in two divisions. One is IT services. The IT services is the area which where the average wage is lesser compared to the GCCs. And this is an area which cannot be ignored. So we haven't seen much of movement for last six to seven quarters and now we are seeing slowly TCS and Infosys from their results talking about how they are anticipating the hiring, lineups, et cetera for upcoming quarters.

And when it opens up, it really opens up well and it definitely adds quantum in terms of the headcount growing up drastically for us. So we are waiting and watching for those mandates to come in. While it has been very, extremely marginal in terms of Q1 but as we step forward, we should definitely see some addition coming in from IT services. Having said that, our exposure is almost 70% to GCCs. In GCC, specifically, we work with auto, engineering, healthcare, BFSI. So what happens here is these are high-margin business. In fact, the way GCCs are set up, we also have strengthened our vertical. We have domain expertise coming in from specific sectors who drive these towers for us internally. So, for example, BFSI or engineering and auto, we design few components for our customers in terms of deploying people who design components. It's a very different hiring than what I hire for IT services. So from that standpoint, of course, the margin that we realized from this kind of niche deployment is also on the higher side. The only point what we don't drive is, we don't drive headcount, we largely drive this on the net margin that we realized for associate per month basis, how the recruiters would work on the mandates.

So with that, yes, it is going to definitely add as we move. But, however, just to bring that caution back, see, while IT will continue to grow. Our general staffing, which is also the low-margin business but it's a high cash generating business will also continue to grow at the same speed and sometimes general staffing negates the margin growth that comes from other business. So we continue to balance both. At a platform level, I think around anywhere between 2.4% to 2.6% is a well-balanced delivery.

Riya: And in terms of you just said that we see a bit of wage hikes in Q1 and we are anticipating as for normal scenarios, wage hike in Q3. So when can we pass this on our partially to the customers? And how is the business model?

Kamal Pal Hoda: Inflation increase the merit inflation increase given to the core employees. It has nothing to do with what we billed to the customers. As far as the margin trajectory is concerned, Q1 like we said, we close it around 3.7%. And with a mix change that is expected over Q2, Q3 plus some of our other businesses, which have high margin but low seasons in quarter one and with festive season coming up, we expect that we should by end of quarter two or early quarter three, we should be back into 4% margin levels.

Riya: Okay. Thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Dipesh from Emkay Global Financial Services Limited. Please go ahead.

Dipesh: Yes. Thanks for the opportunity. A couple of questions. First on workforce management. If I look, core to associate showing steady downward trend. Any implication on margin you think or this is within range and that's why you don't see much change on margin implication perspective. Second question is on the new onboard contribution which we give for domestic IT staffing. If I look GCC remained roughly around 50 percentage for last reported few quarters. If I look the contribution to revenue, it is showing steady uptake. How to read these two number, if you can help us understand, what it signifies and how to read this number? Second set of question is on foundit. If I look, we have seen sharp increasing search profile, profile update and job posting on sequential basis the number which we posted, while active user base largely remains steady and so in consistent trend. So how to reconcile this thing. Whether we have made any product changes which lead to some kind of changing in reported metrics, which one should not focus on kind of thing because it is one-off and maybe taper-off in subsequent quarter? Thanks.

Kushal Maheshwari: So I'll ask Sekar to first take the question on foundit.

Sekhar Garisa: Yes. Specifically, on foundit, there are two ways to look at the business. There's engagement that happens both on candidates and recruiters, which determine the health of the business and eventually these metrics convert into revenues. So what we spoke about earlier on the metric health is both on the candidate side, which we measure through traffic profile and applications done by candidates on the platform as well as on the recruiter side, which is net dollar retention rate as well as consumption. All of them have moved significantly positive in this quarter. And even from a sales perspective, we do 30% from last year till the quarter to this this year same quarter. So from that perspective, we are on track in terms of both our operating metrics, financial metrics, as well as growth metrics and that's the broad metrics from foundit perspective. Anything specific you want to ask?

Dipesh: No. So let's say if I look your new search profile, it is 85% up quarter-on-quarter, 94% on year-on-year. Similarly profile update 86%, whereas if I look your revenue it is more or less 6% kind of number. Even your active user base remain more or less stable. So, consistency, let's say 7% quarter-on-quarter, 16% year-on-year. Whether we made some changes in the product that's why some of these reported metrics got materially different than the trend.

Sekhar Garisa: Yes. So we launched our new version of the product, which is AI driven foundit 2.0 as we called it. One of the significant advantages with that is a lot of AI led value that we are delivering both to candidates and recruiters that has led to improvement in the operating metrics, which is what you have seen here.. The more candidates uses, the more the platform becomes valuable to recruiters and subsequently, this is the base on which we will build our sales growth for the coming quarters. So most of the updates that you're seeing are driven by new product updates that were made to the platform over the last quarter.

Dipesh: Let me simplify whether you expect revenue growth to follow similar trend the way we are seeing this trend.

Sekhar Garisa: Yes. So from last year Q1 to this Q1, we grew 30% and we expect a similar trend to happen on the subsequent quarters as well and that's the guidance that we have given, even in Guru's commentary that we expect a high growth year for Foundit. Significantly higher than 30% that we delivered in Q1 that trend will continue.

Dipesh: Yes, on workforce maybe you can answer?

Guruprasad Srinivasan: Sure. Yes, I'll take that. So specific to GCC, you had a question, so just to clarify on the headcount, the GCC contributes about 43% and by revenue its about 69%.

Dipesh: No. My question was on new onboard contribution. I understand headcount because of realization variation. My question was new onboard contribution and then revenue contribution?

Guruprasad Srinivasan: Of 300 plus people that we added in Q1, 49% of that are deployed in GCC and balance 40% in IT services, about 11% in enterprise. So the new net adds that we did are bifurcated in that. So, which means 49% of our hiring is going towards GCCs.

Dipesh: Understood. Thanks. And the last core associate?

Guruprasad Srinivasan: Core to associate, see it ranges between close to about 390 to about 425, depending upon the season. So we were about 427. So as I said, Q2 and Q3 is a season and we will be strengthening our sourcing engine across, plus investment in job spots, strengthening the recruiter on the front line there. So that's a range. We'll be in a range between anywhere between close to 400 to 425.

Dipesh: Guru, so question is, let's say we are seeing core to associates that it is 15% down year-on-year. Whether any margin implication happened because of that or you think you don't see much change on margin because of that ratio remaining within the range?

Guruprasad Srinivasan: Yes, it's within the range, it will not impact margin. That's what I said.

Dipesh: Understand. Thanks.

Moderator: Thank you. The next question is from the line of Dhvani Shah from Investec India. Please go ahead.

Dhvani Shah: Hello. Thank you for this opportunity.

Guruprasad Srinivasan: Yes. Dhvani, please.

Dhvani Shah: Yes. Just wanted your thoughts on how much is the PAPM in this quarter and we will be trying to understand that the top customers or the top customers are seeing decline. So are the incremental contracts also facing some cost pressures in terms of the gross margin?

Guruprasad Srinivasan: So, our PAPM range is always between 670 to 700. So that's the range that we trend into. And specific to cost pressure, of course, I mean, I keep saying this cost pressure will be there and whenever we call for renewals, there will be pressure, but we generally tend to stay ahead in terms of the deployment as well as there are multiple line items that we look at, right. So capability of sourcing gives us the edge to continue in terms of the net realization that we get from an associate. That's a key differentiator. Plus the technology deployment that we do in terms of application related to work or dash+, so they also realize some bit of exclusivity that we bring in when we deploy people, or differentiator when we deploy to customers. So from that, through that engagement, we have been able to really keep our average between 670 to 700.

Dhvani Shah: Okay. And just one more thing. You mentioned that the last quarter, the conversion from gross margin to EBITDA was 67%. What was it last quarter?

Kamal Pal Hoda: We are to the same range between 65% to 67% is where we are ranging from last four to six quarters.

Dhvani Shah: Okay. And just one more question. In the domestic IT segment, GCC share in terms of revenue is now 69%. But we were trying to understand on year-on-year basis the absolute number has declined by 4.9%, while ITeS saw growth of 4.1%. Is this understanding, correct?

Guruprasad Srinivasan: Yes, it is. What happens is, if you look at IT services, as I said, has started coming back in this quarter. It started getting the open metrics from there. And if you look at even the new onboarding that we have said, we have added new onboarding of about almost about 40% in Q1 in itself from the ITeS which has increased.

Dhvani Shah: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

Aniket Kulkarni: Yes. Thank you for the opportunity. So could you please give a timeline of the demerger details and when will you think the demerger will be completed? And do you expect any hurdle on the way? And secondly, why do you think this demerger will unlock value for Quess Corp. So if you can give some color on that?

Kamal Pal Hoda: Sure, Aniket, thanks for your question. So on demerger, we have previously also guided that it’s a 12 to 15 months’ process from the date of announcement. So we announced the demerger in the month of February. And the scheme is a mirror shareholding scheme and we expect with a simplistic scheme, we should be able to complete this demerger on the timelines that we stated. Obviously, there is lot of external interface on this. There are regulatory approvals, but so far we are on track and hopeful that probably by Q1 of next year we should have the demerger processed. To your question on why or whether it will unlock any value. There are multiple reasons that we did the announcement of demerger. It does simplify corporate structure and post simplification, there is an opportunity for value unlock. It also leads to an enhanced managerial focus because all these businesses are well scaled, large businesses and industry leaders in each of their respective states, respective lines of businesses. So demerger and running it as a separate listed entity, definitely bringing additional managerial focus and giving the competitive edge. Each of our businesses are into different service lines and hence there was also a need of uniquely defined capital allocation strategy for each of these businesses, which again, leads to value creation for shareholders. So that was also one of the reasons.

And it also gives flexibility to these businesses to pursue independent strategies. And that brings a lot of clarity on the investment thesis for, let's say, the shareholder as to which businesses they are investing money. So those were some of the reasons the demerger was announced in the month of February. And like I said, we are on track. Hopeful that by Q1 of next year, we should be able to get this done.

Aniket Kulkarni: Okay. Thank you so much and best of luck for the upcoming quarter.

Moderator: Thank you. Ladies and gentlemen, we'll take this as a last question and I will hand the conference over to Mr. Kushal Maheshwari for closing comments.

Kushal Maheshwari: Thank you. This was a very engaging session. If there are any questions which are left, then you can reach out to the Investor Relations team separately. I would request Guru to give our closing remarks for the con-call.

Guruprasad Srinivasan: So, I take this opportunity to thank each one of you again for joining us for this Q1 earning call. Your questions and feedback have always been valuable and I would like to once again highlight that we remain steadfast in growing the business across all our operational and financial metrics, unlocking value to shareholders in the process and with this note thanks again for joining us and look forward to meet you also. Thank you.

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

(This document has been slightly edited to improve readability)