

August 05, 2024

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Listing Department Listing Department

BSE Limited, National Stock Exchange of India Limited,

Phiroze Jeejeebhoy Towers, Exchange Plaza, 5th Floor,

Dalal Street, Fort, Plot no. C/1, G Block,

Mumbai - 400 001 Bandra Kurla Complex, Bandra(E),

Mumbai - 400 051

Scrip Code: 539658 Scrip Code: TEAMLEASE

Dear Sir/Ma'am,

Sub: TeamLease Services Limited (TeamLease/Company) - Transcript of Q1'FY25 Earnings Call

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

With reference to the above-mentioned subject and pursuant to Regulation 30 of the SEBI LODR Regulations, 2015, please find enclosed the Transcript of Q1'FY25 Earnings Call hosted on Wednesday, July 31, 2024 at 04:30 P.M. IST. The same is available on the website of the Company at https://group.teamlease.com/investor/earning-call-transcript/.

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

Thanking You. Yours faithfully,

For TeamLease Services Limited

Alaka Chanda
Company Secretary and Compliance Officer

Encl: As above

Website: https://group.teamlease.com
Business Portal: https://group.teamlease.com



"TeamLease Services Limited Q1 FY '25 Earning Conference Call" July 31, 2024







MANAGEMENT: Mr. ASHOK REDDY – MANAGING DIRECTOR AND

CHIEF EXECUTIVE OFFICER – TEAMLEASE SERVICES

LIMITED

MR. KARTIK NARAYAN - CHIEF EXECUTIVE OFFICER

OF STAFFING - TEAMLEASE SERVICES LIMITED

Ms. Ramani Dathi - Chief Financial Officer -

TEAMLEASE SERVICES LIMITED

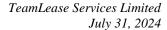
Ms. Neeti Sharma - Chief Executive Officer -

TEAMLEASE DIGITAL

MR. ALLURI RAMESH REDDY-- CHIEF EXECUTIVE

OFFICER -- DEGREE APPRENTICESHIP

MODERATOR: Mr. Amit Chandra – HDFC Securities





Moderator:

Ladies and gentlemen, good day, and welcome to the TeamLease Q1 FY '25 Earning Conference Call hosted by HDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Amit Chandra:

Yes. Thank you, operator. On behalf of HDFC Securities, we welcome you all to the TeamLease Quarter 1 FY '25 Earnings Call. Today, we have with us the management team of TeamLease represented by Mr. Ashok Reddy, MD and CEO; Mr. Kartik Narayan, CEO of Staffing; and Ms. Ramani Dathi, CFO.

I will now hand over the call to the management to start off with the initial commentary. And post that, we'll open up the floor for questions. Thank you, and over to you, Ashok sir.

Ashok Reddy:

Thank you very much, Amit and good evening and thank you all for joining the call. Overall, at a macro level, I think in the context of the recent union budget, there were a number of proposed initiatives around employment and employability, which we believe is a welcome enabler for our long-term objective of putting India to work. And that, coupled with the implementation of labour costs, we believe these initiatives will drive up formalization and productivity of the workforce in the coming years.

Having said that, we still await the details to be notified around the various schemes that have been announced to make an exact call on the immediate and longer-term impact for business. But overall, we do believe it's an extremely positive directional element from the budget for formalization and for productivity of the workforce.

On the business front, staffing has been maintaining a healthy volume growth consistently across quarters and across the diversified portfolio of clients. The main impact in the DA business has been more or less fully taken into account with most of the NEEM trainees being offboarded during the quarter. And going forward, with the net growth that DA has, it will become a contributor on profit growth and margin expansion.

The billing cycle in EdTech business has quite hugely impacted the Q1 profitability with -- that we believe with the current sign-up of universities and students that are there and with the element of onboarding sign-ups that will happen across Q2 and Q3, we are confident of posting a substantial growth in both revenues and profitability of the EdTech business during the year.

At the group level, we added about 12,700 headcount during the quarter, which includes the offboarding of the NEEM trainees of approximately 6,000. The revenue grew by 6% quarter-on-quarter and 19% year-on-year. The EBITDA decline is primarily on account of the seasonality and the delayed university billing in the EdTech business and partly on account of the annual appraisal of core employees. The seasonality element in the EdTech business, we



believe, will get covered between Q2 and Q3, and they will also have a robust growth in revenues this year in line with the sign-ups of universities and pipeline of student numbers that they have.

Having said that, I will ask my business heads, Kartik from Staffing, Ramesh from the DA business, Neeti from the Specialized Staffing side to give a commentary specific to the businesses, followed by Ramani on the finance front and then we will answer any specific queries that are there. Over to you, Kartik.

Kartik Narayan:

Thank you, Ashok. Good evening, all. During this quarter, we witnessed notable progress in general staffing with a net addition of nearly 15,450-plus associates, marking the highest number reported in the last 10 quarters. We experienced a 6% growth in headcount from this and a 57% quarter-on-quarter from a net addition perspective and 19% year-on-year compared to last year Q1.

In terms of revenue, we had an 8% quarter-on-quarter growth and 22% year-on-year, reflecting the positive momentum in our business. From an opportunity perspective, we are seeing green shoots in the banking finance sector. Some of you might recall that since Q3 of last year, there has been a tense RBI scrutiny around practices followed by financial companies, followed by advisor of KYC and unsecured loans. Consequently, we saw across Q3 and Q4 a bit of a holdback across different segments of the financial sector. We are now seeing a cautious revival as far as BFSI is concerned. So microfinancing, affordable housing and payment services are seeing a revival while larger NBFCs are still flattish.

On the consumer side, it is more nuanced. FMCG businesses across sectors have been stressed for the better part of last year due to higher input costs, inflation and rural stress, so not much expansion there. For our businesses, however, it has come as a positive as some of these companies are the ones who are looking to formalize their extended workforce chains to improve productivity and compliance. A part of our growth in Q1 is a factor of this.

The FMCG or the consumer durables business has seen a significant bump up this quarter. Again, some of you might have noted the news around record air condition sales due to extreme heat conditions across the country. Therefore, the CD business is seeing a positive momentum. The other news -- positive news is around telecom with improved tariffs and investments. We are seeing growth of workforce catering to both network and sales. We are expecting this growth to continue into the balance of the year.

In terms of absolute growth, our top 3 segments would be consumer, telecom, followed by BFSI, a distant third for the reasons mentioned before. Telecom has registered a year-on-year volume growth of over 36%, followed by consumer at 35% and BFSI was more muted 7%. Our sales effort in Q1 has resulted in 43 new logo sign-ups, primarily in the consumer, financial services and manufacturing segment. 2/3 of our clients signed on available models.

At the gross level, we had around 28,600-plus associates during Q1 through our sources, which is a 30% increase quarter-on-quarter and a 10% increase from the sales period last year. Hiring is an important aspect of our business, and we'll continue to invest in hiring while maintaining a



more cost-conscious approach in the crucial aspect of our business. One of the other really important aspects of the business is around optimization and leverage, doing more with less.

Our FTE has improved by 2% to 379, including the degree apprentice business, owing to a 6% increase in associate headcount in Q1. Our digital transformation efforts have yielded significant improvements in operational efficiency, allowing us to support an expanded customer base with our current workforce. We anticipate this momentum to persist into FY '25, enhancing both clients across lines and operating efficiency.

Looking forward, our business is positioned for growth in the first half of the year with a clear view of a robust pipeline and rising demand among many of our clients. The interest shown by potential customers is also promising. Several proactive sectoral shifts and some of the initiatives, as mentioned by Ashok in the new budget, are set to shape our business' future, including a sustained push toward formalizing the workforce and beginning of the festive season towards the end of Q2.

The anticipated expansion in consumer and recovery of BFSI, which is expected to generate job opportunities, including temporary provisions. Overall, a good beginning to quarter 1 in general staffing and our ongoing emphasis on productivity, especially in sales and hiring, alongside the advantages emerging from digitalization and process enhancement positions us to anticipate an impactful year ahead. Thank you. And I now hand it over to Ramesh Reddy, our CEO for our Degree Apprenticeship.

Ramesh Reddy:

Thank you, Kartik. Very good evening to all of you. Just wanted to start off saying that skilling and vocational education is seeing huge focus from the government and that's reinforced by the recent budget as well. Of course, we are awaiting the details to determine the actual impact on the ground. But the companies what we are seeing, they are much more amenable and open to embrace apprenticeship.

The data from the NSBC portal itself shows an increase of 2 lakh apprentices in just the NAPS scheme across the last 1 year. So we believe very firmly that formal education that was funded by the industry and is relevant from a work context, when this is coupled with the on-the-job as part of our apprenticeship, it will go a long way to solve the skill problem, which India is faced with. DA provides apprenticeship across NATS, NATS, and also offers work-integrated learning programs across the white collar and the blue-collar space.

We are actually tied up with more than 20 universities, and we deliver short-term certificates all the way to degrees, diplomas, advanced diplomas, et cetera, as well as part of our education offering. Coming to our performance in Q1. As Ashok said, we have let go of the NEEM trainees and that's more or less behind us now. Apart from this, we have added more than 3,300 numbers across NAPS, NATS, and WILP, work-integrated learning programs. And the good thing is that we saw an expansion in the PAPM numbers as well. And that is because primarily 60% of these additions came in with a component of learning where the customers were willing to pay more towards the education initiative.



So we closed at a headcount of 42,350 apprentices. And in Q1, we were able to add 32 new logos into the apprenticeship program. Now learning was successfully embedded both into the new logos as well as expansion of our current logos as well. We had 13% of our new logo additions coming in with a learning component and 22% of our existing customers embracing learning in Q1. Now we're seeing that this is received very well by our customers because it leads to tangible improvements in terms of productivity as well as reduced attrition. So we see that there is a quite a bit of openness to embrace the same.

We've actually embarked on many events and roadshows to evangelize the importance of the adoption of Degree Apprenticeship in building a sustainable talent supply chain, and hence, improve the productivity of the workforce, stem attrition and build a very sustainable talent supply chain for the companies. We are very happy to note that the government has emphasized much on the skilling programs and employability as well during the recent budget.

The government is also pushing the adoption of apprenticeship by sending notices for noncompliance. As per the news article in Business Standard, there were 180,000 notices, which the government had sent to companies to adopt their apprenticeship scheme. We are very positive that this will further accelerate the adoption of Degree Apprenticeship. Overall, we see a very good receptiveness to this idea of learning-embedded Degree Apprenticeship, and this is across all sectors like manufacturing, capital goods, retail, engineering, electronics, automotive components, et cetera. We plan to capitalize on this interest and push forward. With this, I would like to hand over to Neeti to discuss on the specialized staffing.

Neeti Sharma:

Thanks, Ramesh. Good evening, everyone. From the specialized staffing perspective, while the period of layoffs and low hiring seems to come to an end, the demand from the IT services company has still not increased remarkably. It is higher compared to last year quarter Q1. However, that's purely because these companies now have no or very low bench strength. So for any new requirement, be it a backfill or a new hire, they have to hire externally.

So these requirements have started trickling in over the past few months to us. DCPs continue to expand their presence in India and are keen to hire talent with a combination of tech and domain skills. We partner with over 55 DCPs, mostly within the BFSI, Health and Auto segment so far. And about 55% of our net revenue in the last quarter has come from DCPs. The non-tech sector has also increased its tech hiring given the focus on digitalization. And that has given us 4% to 6% of our overall net revenue in the last quarter.

We've added 13 new logos. Out of it, about 7 of them are large and strategic accounts. Our sales pipeline continues to be strong, and we expect this momentum to continue for the rest of this fiscal year. We're shifting our focus towards high-margin accounts and reassessing our strategy for lower-margin accounts across all areas of our business. The demand for skilled candidates, especially that with AI skills has increased substantially. To address the skill gap, we've initiated an upskilling program on AI and related topics, which is now available to every candidate that joined us while they get deployed to our customers. Our aim is to be able to provide a more skilled and productive talent pool to our customers.



We constantly exited few low-margin mandates, which has resulted in a 5% sequential headcount drop and a 17% year-on-year drop. However, our revenue has increased by 4% year-on-year and decreased 1% sequentially as we focus on replacing the low-margin mandates with higher margin and higher-value mandates. Our EBITDA is broadly flattish year-on-year but decreased 11% sequentially. The sequential drop in EBITDA is primarily driven by wage increase for core employees and decrease in headcount during quarter 1.

As we move forward, our strategy is to focus on new client acquisitions, improve our share of wallet with existing customers by way of newer products and efficient services, bring in hiring efficiencies, cost optimization and improved tech adoption. We are confident that these actions will lay the foundation for more resilient and profitable growth in the future. We are committed to maintaining a competitive edge and fast-tracking our strategic initiatives as we go forward. With that, I request Ramani to take this forward.

Ramani Dathi:

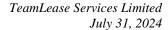
Thank you, Neeti. Good evening, all. We had over 15,000 volume growth in staffing in the first quarter of the year, which sets the growth trajectory for the rest of the financial year on revenue and profitability. Our initiatives around upselling of value-added services to clients and associates are helping us maintain the PAPM in staffing business.

On DA front, as indicated earlier, we have let go of 6,000 NEEM members in Q1 and absorbed an impact of INR2 crores on net profit. There shall be a consistent growth in volume and profit contribution by DA from here onwards. This, coupled with economies of scale in general staffing business, helped us improve profits and expand margins from Q3 FY '25 in the staffing segment. As far as specialized staffing is concerned, we continue to maintain the run rate on revenue and profit sequentially.

Any green shoots in IT hiring trends will directly contribute to the bottom line with no further increase in fixed costs in the back end. HR services has underperformed for the quarter mainly because of delays in student admissions and university billing statistic. However, on a full year basis, we are projecting a steep increase in EdTech profit, given the sign-up of new universities and student pipeline. Overall, on a Q-o-Q basis, the 3 items that have impacted the group EBITDA are: one, core employee appraisal of INR4.5 crores; two, EdTech seasonality of about INR8 crores; and three, NEEM final leg of INR2 crores impact. We are not expecting any challenges or surprises for rest of the year in terms of margin expansion.

From a capital allocation perspective, we are at an advanced stage of discussions with a couple of M&A opportunities under the HR Tech business. These opportunities provide us with the required capabilities and scale to penetrate into HCM market. These are of small ticket size deals with less than INR50 crores exposure and are profit accretive. Balance sheet metrics like receivables, DSO, working capital ratio, ROCE, debt ratios are all steadily maintained.

Free cash balance has improved during the quarter, owing to TDS refund of INR115 crores received during this quarter with full allowance on our 80JJAA claims. Total cash balance stands





at INR439 crores as of 30th June 2024. So these are the comments. We can now open to questions from the participants.

Moderator:

The first question is from the line of Deep Shah from B&K Securities.

Deep Shah:

So sir, first question is -- so thanks for the detailed margin explanation and the inputs from different vertical heads. Really appreciate that. But sir the question really is around that if we see over the last 4 years, while we've grown spectacularly on the top line front in general staffing, the reality is that our absolute EBITDA, right, the rupee EBITDA amount has remained flat. Now if you can help us understand how we'll get out of this rut in the sense that there will be appraisals every year?

So any maybe sourcing matching capabilities, maybe new initiatives because we've been highlighting for some time how -- even today, we highlighted that 2/3 of the logos signed were on variable basis and yet somehow the absolute EBITDA remained in that INR25 crores, INR26 crores range on a quarterly basis. So if you could just help us understand that how we'll get out of this orbit, that would be useful.

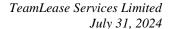
The second question is on the HR services. So I heard your comments that you are very confident that by Q2, Q3, things will come back. But would it suffice to say that on a full year basis, we've not lost any business? And this is purely a timing issue and therefore, on a full year basis, we should actually do significantly better than last year. Would that be a fair assessment, given that there's a big hole to fill in terms of the losses that we've seen this quarter? So those are my 2 questions. I'll join back in the queue.

Ashok Reddy:

So just to answer your second question first, Deep, I think the focus for the EdTech business last year besides kind of billing the universities that we are working with was also a large element of our sales activity to sign up a number of new universities and premier institutions, and they've been quite successful on that front, which is also kind of the reason why a lot of investment in terms of cost had to be upfront loaded into the business because as we sign up the universities and the premier institutes, we have to create supporting teams for them.

So we haven't lost any institute or university from a business perspective. And we do believe that the number of sign-ups that we had done last year will actually get into billing this year. That being said, I think the element of admissions to universities have gotten delayed by a few months for the aspect that the universities had to realign the curriculum in line with the NLP and kind of factor the back-end preparation there.

So our belief is that starting the second half of Q2 onwards, between Q2, Q3, Q4, we should have a substantial amount of billing coming in, coupled with a lot more new logos being built also. And we will -- we do believe that, that will kind of be the foundational element into the coming year. But while seasonality in admissions and university programs will be there, we do look at working with more institutes and universities on a running basis with the sales complementing the business.



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Ramani Dathi:

Yes. On the first question, Deep, you're right. Profits have been largely flattish over the last 3 years, and I don't want to be repetitive on the same reasons because one NEEM is a huge INR20 crores impact on overall profits. Plus specialized staffing last 1.5 year, there were headwinds. And almost for 3 years, HR services was an investment phase, and it has turned profitable last year. As we have called out last quarter, with Q1, we are fully done with all negative impact items, be it NEEM or investments in HR services, seasonality and all. And that's why we are confidently saying that from Q2 onwards, we should be consistently improving on profits and margins.

Deep Shah:

Right. So Ramani, I appreciate that. But that question was actually only pertinent to general staffing business. So I understand that IT has gone through its pain points and the investments in HR services are actually visible in the kind of revenue growth that we've seen. But especially for general staffing, because we've seen spectacular headcount there over the last 3, 4 years but our EBITDA has remained in a range, so anything?

Ashok Reddy:

Sorry. So on the general staffing side too now, Deep, that -- the element of restructuring in the team has been done with a focus for industry vertical and the hiring element of productivity and all of that has flown in, coupled with the fact that from an operational perspective, the reporting of DA also happens in general staffing. So I think the fact that, one, the general staffing growth, we view it being positive and being quite aggressive in numbers in the coming quarters.

The fact that the team expansion and capabilities are now done, we do believe that the productivity aspect will flow down to the bottom line in the coming quarters. Also, from an operational perspective, the DA impact in the consolidated reporting would also be taken care of now that the NEEM decline after 18 months is more or less now done and dusted. The fact that we are growing at a net level in the non-NEEM numbers, and as Ramesh had called out with the education linkage being there should start contributing to the EBITDA growth.

Moderator:

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

Amit Chandra:

Sir, obviously, I know you have alluded about the benefits that were provided in the budget in terms of employment and skilling. So there are various schemes which have been announced. We still await clarity on these. But more from a structural trend, if you can elaborate which parts of the business will be most impacted? Obviously, and also from an perspective that how we see the PAPMs expanding if you provide these additional services. So is it fair to assume that some part of these benefits will also flow to our PAPM?

And also in terms of the DA business, obviously, the NEEM reset has been done. And now we are seeing a lot of emphasis by the government on the internship opportunity and also in terms of the skilling programs. So how do you see the scaling up of the DA business because it's a fresh start for DA business? And if you can provide a more holistic picture in terms of how you're seeing it in the next 2, 3 years?

Ashok Reddy:

Yes. So I think largely from the government policy and the elements of the schemes that were announced, Amit, we think the impact will be to the DA business and to the staffing business. I



mean, overarching to that is primarily the element of focus from the government side on employment and employability, coupled with the element of formalization.

So I think, obviously, the devil is in the details and we're going to have to wait for how they translate the element of the budget statements into specifics. So we will await that to see the immediate impact. But I think when we look at it from the DA perspective, the whole element on the trainee front and the ask of corporates to participate and subsidy being provided towards the element of enabling people to learn on the job and everything else is a very positive outcome.

That, coupled with the fact that what again Ramesh had called out earlier, of the government trying to enforce the element of the apprenticeship act quota to be adhered to by corporates is an acknowledgment that the best way to do skilling is learning on the job and even better if they can earn while they're learning. So our belief is that there is ownership from the government side to bring about the element of learning on the job, whether it is under the apprenticeship scheme or a trainee program or various other nomenclatures.

But we believe that between the state and centre level, the element of focus to drive this in larger numbers, and I think that's really where we can complement organizations to be able to handle that volume and that operational handling capability from the systemic perspective at the back end.

Also, I think the overall pickup for job creation and formalization and pressures hiring complement the staffing business. There also there are elements of saying the government will subsidize or reimburse and, to some extent, have a graded scale and so on. We have to wait for the details to come to see how it will complement the element of PAPM and cash flows for the business.

But overall, again, I think it directionally drives formalization and pressure hiring, which is primarily playing to our core competency around the element of servicing for customers. So I think the various initiatives that the government has announced complement the element of opportunity for growth for us. But in financial numbers, we just have to wait for the details to come out, but we believe it could be a small kicker at the back end.

Amit Chandra:

Okay. And sir, obviously, we are seeing good volume growth, but that is not flown down into the EBITDA or into the margins. So from a more structural perspective, obviously, the margins, if you see from a 5-year perspective also, we are back to -- from where we started in FY '17 in terms of the margins, right? So from here on to scale up the margins, obviously, Ramani mentioned that we'll see improvement in margins from the second quarter.

But from the business model perspective, what changes do you think should be done more from a perspective to scale up the margins to the targets which we were earlier achieving and trying to achieve? And you mentioned that we are focusing on more PAPMs which is linked to salaries and not a fixed PAPM model. So any progress on that? Any mandate that you have been signing on the variable markup model? And what other changes you think will -- is necessary to scale up the margins in the general staffing business?

TeamLease Services Limited July 31, 2024

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Kartik Narayan:

Yes, Amit, Kartik here. So a couple of things. One is that we've seen at least the volume growth has come back the last several quarters, so we are expecting that to sustain. As Ashok mentioned, the budget we are expecting it to be a bit of a force multiplier as the entire thing gets operationalized. So that is going to be a positive to get that thing.

On the PAPM front, we are doing multiple things. One is clearly as called out in the last few quarters, that tend to kind of cross-sell and upsell to our existing customers. So that is one element. And initially, in my initially observations, I had called out that about 2/3 of our customers are coming on variable markup. A part of it is obviously directionally the right thing to do. However, some of these customers who are coming on board are not large to begin with because they come with hiring mandates and hence they grow with us as they move forward.

But I think it's kind of laying the ground for the future that over a period of time, if we pay the - stay with the traction to getting more customers on percentage, and these customers over the period kind of start to grow, we'll see a composition mix which will change. We do not have large customers coming on board on a variable markup percentage basis, though we are finding the largest percentage of clients that I called up relatively on the percentage model. So as we move forward, I think as the competition mix changes, we are expecting that we'll have a positive impact on the PAPM but not immediately in the short term.

Ashok Reddy:

And also just to add to that, Amit, is that the margin improvement largely will also be driven by the portfolio play. And I think over the last 2 years, we've had a headwind in the DA and the specialized staffing business. At least at this point, we do believe the specialized staffing business has gone as low as it possibly can. It has kind of been holding at these levels for the last 2 quarters.

And we believe that some element of opening up in terms of open positions and additional hiring should start coming in from Q3 onwards. Cost optimization and correction in -- at the back end has been done and that continues to be a focus there. Also, DA, which was relatively a large contributor and as Ramani called out, over INR20 crores of impact to the bottom line from the NEEM scheme over the last 18 months has kind of hit the business.

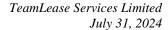
Now in a stand-alone basis of net growth that they are in, coupled with the education incorporated sale being a larger percentage will also start kind of contributing. Leaving aside the seasonality in Q1, HR services has come back, has come into profitability effective last year, and we believe will stay to growth and higher profit this year. So a combination of that should also help on the margin improvement.

Amit Chandra:

Okay. And Ramani, if you can tell us what was the core employee cost absolute numbers for this quarter and for last quarter?

Ramani Dathi:

Yes. The net increase in core employee costs sequentially is INR4.5 crores. Out of which, almost INR1.5 crores is into staffing segment. And as I called out earlier, for subsequent quarters, we are not expecting any further increase in costs, be it on core employee front or any other fixed costs for any other business. So there should be a consistent improvement in profits.





Amit Chandra: I was asking about the absolute core employee cost that we have for the quarter.

Ramani Dathi: I don't have that number right in front of me, Amit. I'll connect with you offline.

Moderator: The next question is from the line of Dhyani Shah from Investec.

Dhvani Shah: So just wanted to understand, this quarter, the general staffing EBITDA margin in absolute terms

came down by INR2.4 crores. We understand that the NEEM impact was 2.5 and then core appraisal, like you said, was 1.5. So it seems that the increase in gross margins is coming at a lower rate versus earlier if you just back calculate. So I wanted to understand the incremental PAPM are actually lower despite them being on a variable structure. Would this understanding

be correct?

Ramani Dathi: That's right, Dhyani, because with the consistent increase in associate salaries, the salary

inflation is impacting the gross margin as a percentage. So while the incremental growth is happening mostly on variable markup model, given the large base that is on fixed markup, almost 75% of our business is still on fixed markup model, that's kind of impacting the gross margin

percentages. So it takes a while for the share of variable markup to go beyond this 25%.

Ashok Reddy: And also, I think, Dhvani, on this front, while we've been signing more customers on a Q-on-Q

basis in the percentage model, on the overall base, it doesn't move the needle yet. And as Kartik called out, most of the new signups come in with low numbers and kind of grow over a period of time. But I think overall, also the aspect that some of the larger clients continue to grow larger, the big clients. And from that perspective, they are at a lower PAPM, but we are still kind of

maintaining the average PAPM over the quarters.

Dhvani Shah: Could you just tell me what's the average PAPM for the quarter?

Ramani Dathi: Yes, we are currently at INR679 of PAPM for this quarter, which is almost same as last quarter.

Dhvani Shah: Okay. And just 1 last question. On the EdTech side, I see you all have hired a lot more core

employees within each segment of EdTech, HireTech and RegTech. What would that be for? Like you mentioned the investments for the entire HR staffing business are almost done. So...

Ashok Reddy: So as I just called out earlier, Dhvani, we have signed up a number of new universities and

institutions last year that we will be supporting from the student and the university programs perspective. And a large element of the recruitment in the EdTech side has happened for that,

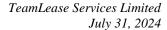
which will reflect in the element of delivery and billings starting from Q2, Q3 onwards.

Moderator: The next question is from the line of Krunal Shah from Enam Investments.

Krunal Shah: My question is on EdTech. So I think last year also, we had a delayed cycle where it came in

from Q2 onwards. Is this like a recurring thing now that every year, it will come from Q2, Q3

onwards?





Ashok Reddy: Yes, Krunal. So there is always a seasonality in the university business. Q1 will be the lowest

relative to Q2 and Q3 with a slight dip thereon in Q4. This year, Q1 is actually lower than the Q1 of the prior year, primarily on account of the NLT readjustment that universities had to do around their program, which we believe is about a 1-, 2-month delay and would start seeing

admissions again starting towards the end of August onwards.

Krunal Shah: Got it, great. And the second question is on the apprenticeship program. So now that we have

the Snaps and WILP, so can you just help me understand what is the markup there? If the execution component or the learning component is present and without the learning company,

the difference culture.

Ramesh Reddy: So in terms of the PAPMs without the learning component, we see that the customers are willing

to pay about INR350 just for the administration. Learning component, we see that they're willing to pay -- we actually have a slab-based system based on which university, what kind of learning

programs, so from INR500 all the way to INR2,500, we can do it.

Ashok Reddy: Yes. So on a broader basis, Krunal, I think about INR300, INR350 is for the regular

administration purpose and anywhere between INR400 to INR500 per month for the education

linkage over and above the INR300.

Krunal Shah: Got it. And out of this, around INR100 goes to PLSU. Is the understanding, right?

Ashok Reddy: That's right. Yes.

Krunal Shah: Got it, perfect.

Ashok Reddy: If it's a degree program, then it is also dependent on the other universities that we are working

with.

Krunal Shah"

Okay. Okay, got it. In terms of our general staffing logos, what is the typical attrition rate do

you see over there?

Ashok Reddy: So on an average, some of the -- I mean, in the large to medium accounts, we don't lose any. So

they have kind of -- we have not had any loss over the past few quarters. Typically, there's no attrition there. The smaller accounts typically which are in the single to double-digit numbers is where the churn happens either because there's no business requirements or numbers have kind of had a natural attrition or a project offload and so on. So between 25% to 30% on an average

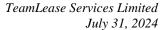
in the lower end would be the attrition.

Krunal Shah: Got it. Got it. And one last question, staffing and productivity -- sorry, can I go ahead?

Ashok Reddy: Yes, sorry, go on, Krunal.

Krunal Shah: Yes. Just on staffing and productivity. So over the last 3, 4 years, we've seen that improvement

has slowed down. Previously before COVID, the improvement was pretty fast, the staffing





productivity number. The last 3 quarters, that has kind of slowed down. Could you help us understand what's the reason for that?

Ashok Reddy:

So since COVID actually, we've been making a large investment on the hiring side. Also from a pure operational productivity perspective, we also consider the NEEM numbers in the overall aspect of servicing because it's kind of a common team working at the back end. So the combination that NEEM was coming down while we need to -- I think we did call out in some earlier calls about the operational complexities that are increasing under the NATS and the WILP schemes in terms of onboarding the trainees and apprentices, which requires effectively manpower being thrown at the job, coupled with the hiring investments, we've been improving the ratio but not at a much more aggressive clip. I would say that a lot of the investments are now in headcount that core employee side in place, and we should see a better clip going forward.

Moderator:

The next question is from the line of Riya Mehta from Aequitas Investments.

Riva Mehta:

My question is more from a macro perspective. So we have been seeing a lot of demand in terms of semiconductor industry as well as a lot of new global capacity centres getting added. So what are your views on that? And also a lot of -- on the construction and manufacturing side, we're seeing a lot of people talking about labour and shortages and also on the engineers' front, do we supply and how is it for us?

Neeti Sharma:

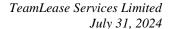
Riya, Neeti here. You're right that both semiconductors as well as GCC requirements continue to keep coming into us. There is a lot of mandates that are coming in from GCC specific in these sectors and need engineers as well as tech support candidates who have domain expertise along with the technical skill set. So like I mentioned earlier, GCCs actually have given us about 55% of our net revenue in the last quarter on the specialized staffing business.

And that we believe will continue. Semiconductors as well. And along with ERD industries also will actually increase their headcount requirement as well as the tech talent. And we see that this itself will continue to give us the mandate to have on the tech side. On the non-tech side, that is the semiconductor manufacturing, Kartik can probably come in and comment.

Kartik Narayan:

Yes. Our current exposure to manufacturing industry is roughly about 12% to 15%. This effectively means that there is a lot more that we can do in that trend in terms of logo acquisition and number growth perspective. Of course, I think part of the opportunities are not just in the semiconductor, assembly line kind of growth, it's also across some of the other emerging sectors like EV space, etcetera.

One aspect of it, which is slightly different in this particular space as compared to services space that there's a lot more delivery expectations that are on the table that we need to deliver to get it right. So you're right. I think there are opportunities which are upcoming due to the PLI and Make in India scheme. We're kind of working towards trying to see how we can cater to this particular demand as well.



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Riya Mehta:

Right. Because a lot of companies are talking about labour shortages and how the projects are not being able to execute because of that. So in such a scenario, are you able to increase our PAPM? Yes. So I was just talking that a lot of companies are talking about labour shortages and because of that, they're not able to execute the projects, etcetera. So in such a scenario where there is a labour shortage, do we have an advantage? And can we increase the PAPM?

Ashok Reddy:

So I think the element of -- there's no labour shortage as such as much as the labour available at a cost and to a skill set that the industry is looking for. So I think at a broader level, it's about matching the skill and salary level to the job expectation that the customers have for. And I think at the end of the day, we have been improving our reach to the candidate pools and our ability to bring employees to match, which is what Kartik called out, roughly 30,000 hires happened over the last quarter to the various job openings that we had in the staffing business alone.

And we've been increasing the hiring delivery, both in the specialized staffing and on the DA front. While the element of pushing customers to pay for hiring on these profiles continues, but I think it's more that some of it gets adjusted to the element of growth and the realization that we get on a monthly basis.

Moderator:

As there are no further questions, I would now like to hand the conference over to Mr. Ashok Reddy for closing comments.

Ashok Reddy:

Thank you very much. I think from our perspective, we believe the macro tailwinds are positive for us from an overall element of the government's focus to jobs, to employment and employability. Like we had called out earlier, we'll wait for the details before we are able to specifically translate that into the element of the short-term and long-term opportunity that it gives us from a business perspective.

Independent of that, I think our continued focus to a healthy growth in volume, to productivity as a function of that volume coming on board, the hiring outcomes for the various positions that we have from the customers, the seasonality adjustment starting in Q2 in the EdTech business will be the key drivers that will make the absolute profit growth come through. We are quite confident that most of the headwinds that we had have either stopped or are no longer there. And with the new tailwinds that are there from a demand and a focus perspective, we should be able to drive growth and growth of profit as we go forward into the coming quarters. Thank you very much.

Moderator:

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