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Putting India to Work

November 08, 2024

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

Dear Sir/Ma'am,

Sub: TeamLease Services Limited (TeamLease/Company) - Transcript of Q2'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 Q2'FY25 Earnings Call hosted on Wednesday, November 06, 2024, at 05:00 P.M. IST. The same is available on the website of the Company at https://group.teamlease.com/investor/earning-call-transcript/.

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

Thanking You.
Yours faithfully,

For **TeamLease Services Limited**

Alaka Chanda
Digitally signed by Alaka Chanda
Date: 2024.11.08 16:02:56 +05'30'

Alaka Chanda
Company Secretary and Compliance Officer
Encl: As above

"TeamLease Services Limited
Q2 FY '25 Earning Conference Call"
November 06, 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 – CHIEF EXECUTIVE OFFICER – TEAMLEASE DIGITAL
MR. A RAMESH REDDY – CHIEF EXECUTIVE OFFICER -- DEGREE APPRENTICESHIP

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

Moderator: Ladies and gentlemen, good day, and welcome to the TeamLease Quarter 2 Earnings Conference Call hosted by HDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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: Thank you, and good evening, everyone. On behalf of HDFC Securities, we welcome you all to the TeamLease Quarter 2 FY '25 earnings call. Today, we have with us the management team of TeamLease represented by Mr. Ashok Reddy, MD and CEO; Mr. Kartik Narayan, CEO Staffing; and Ms. Ramani Dathi, CFO.

I will now hand over the call to the management for the opening remarks, post which we can start the question-answer session. Thank you, and over to you, Ashok.

Ashok Reddy: Thank you, Amit. Good evening, and thank you all for joining the call. We also will be covering the specialized Staffing and DA update as we go forward.

But just as an introduction, I think we've maintained the growth trajectory over the quarter, taking us to a little over 3.5 lakh head count in the employment clusters. At a group level, we added nearly 18,000 head count, largely coming in from across sectors in the Staffing and DA business. The specialized staffing did see net degrowth, but we believe that it is stabilizing as we go forward with some of the open positions and decline that will offset in the coming quarters.

EBITDA recovery is backed by the operating leverage in the Staffing business with growth and also the growth in EdTech billings, which have seasonality factors. We've also been adding new logos and delivering more on hiring. Parallelly, we are investing in a high-tech platform, which we believe will go live in FY '26. The platform aims to bring down our hiring costs significantly in a phased manner because we do believe that a larger element and volume of hiring would get delivered by us as we go forward.

We continue to focus on growth, productivity and profitability. And before we take questions, we will have an update on the businesses and finance front and then get into the questions. Kartik, do you want to cover the Staffing.

Kartik Narayan: Good evening, everyone. I'm pleased to share a detailed update on our Q2 and H1 FY '25 performance, where we continue to see a steady momentum and expansion across our key verticals. In the first half, we recorded growth in our general staffing business with a net addition of 31,000 associate count, marking a new high for us in any given first half. This growth represents 11.7% from our closing date in March FY '24.

In the second quarter specifically, we witnessed notable progress in general staffing with a net addition of nearly 16,000 associates, marking the highest number reported in any quarter for the last few years. This number represents a 6% quarter-on-quarter from a net additions perspective and a 19% year-on-year Q2 last year versus Q2 this year, aligning with our focus on building long-term relationships with clients, while capturing some of new evolving market demand coming through.

On the revenue front, we have seen an 8% increase quarter-on-quarter sequential at a 26% year-on-year increase, which is Q2 last year versus Q2 this year. In terms of different sectorial performance, in the banking finance sector, it's been a mixed bag as far as BFSI is concerned, this entire year. And following a period of what I called out last quarter as well, regulatory scrutiny and market recalibration. We are seeing a measured revival within micro finance, payment services and affordable housing. It's too early to call it. We'll have to wait and see how it plays out in Q3.

In the consumer business, as described in the last few quarters, high input costs and inflation have led to the core consumer businesses being largely flattish. Some of you will be seeing the results for some of these companies, which have come out at the end of Q2, except for consumer durables business, which has benefited from the prolonged summer.

However, some of these companies have reached out to us to seek efficiency by formalizing their workforce. We're also working with some customers on better retention strategies and some are looking to enhance productivity through the extended workforce channels. We have also benefited from the boom in quick commerce and organized retail. This structural shift towards compliance and productivity and workforce management in some of these sectors has helped us grow our head count, given that the consumer goods sector remains pressured by input cost and inflation.

In the telecom vertical, continues to benefit from the nationwide expansion, which is taking place in network upgrades. With additional investments in infrastructure and network growth, this sector remains promising for sustained associate additions in the month ahead.

Now in the client acquisition part, client acquisition strategy, we had about 37 new logos that makes it in H1 about 80-odd logos, driven largely by consumer financial services and manufacturing sectors. Of these, as I highlighted before, 70% have signed on to variable model.

On the recruitment front, we successfully hired roughly about 46,000-odd associates through both our internal and external channels. We hired nearly 26,000 associates during Q2 through our sources, which is a 29% increase quarter-on-quarter and a 16% increase from the same period last year. This is H1 to H1. Our focus on hiring for the rest of the year would be the need to scale while optimizing resources. Hiring has been crucial in sustaining growth across our client base and maintaining our competitive edge in delivering value-added services.

From an operational efficiency and digital transformation projects that we've undertaken, our commitment to operational excellence continues to yield positive results. During H1, FTE, full-time equivalent productivity improved by 1.7%. FTE has improved by 2% to 387 headcount, owing to a 6% increase in associate headcount in Q2, enabling us to manage a larger workforce effectively and support more clients without additional overhead.

Our digital transformation efforts are gaining traction, delivering substantial improvements in speed, customer responsiveness and process efficiency. Some additional initiatives we introduced are expected to further enhance our operational agility, allowing us to be driving client demand with greater accuracy and resourcefulness.

As we move into the second half of FY '25, our core focus areas include continued expansion in consumer and telecom. These sectors will remain pivotal driven by demand and evolving client needs. We are watching the recovery in BFSI with caution with opportunities, like I called out earlier in microfinance payments and the housing finance sector. Of course, we will continue to work towards enhancing our operational agility.

In summary, our core growth driver in H1 that consumables, telecom and early-stage recovery within BFSI, each contributing significantly to our performance. Q3 can be muted on the backlog of caution in the BFSI sector and the drawdown which typically happens due to temporary sensitive hiring, which takes place towards the end of Q2. Our emphasis on doing more with that has brought efficiency gains across our processes. These efforts allow us to deploy more associates as I called out earlier. We expect this to continue to play out in H2. Thank you.

And with this, I hand it over to Ramesh to take you through the DA results.

A Ramesh Reddy: Thank you. Thank you, Kartik. So good evening, everyone. I will give a brief about Degree Apprenticeship and the changes that are happening in the marketplace, and then I'll dive into the Q2 performance.

So as a background, the India's workforce is at a very critical juncture with only 51.25% of the youth meeting industry employability standards as per the India Skills Report 2024. This gap underscores the need for extensive skilling initiatives as demand for industry-ready talent surges. In Q2 FY '24, both the central and state governments have intensified their efforts through multiple schemes and are aiming to bridge this gap, which is aligning with our vision to enhance employability via Degree Apprenticeship and other apprenticeship programs.

From a central government initiative perspective, the employment-linked incentive under the constituent of the Prime Minister's Internship scheme, the PMIS, were the key initiatives that were launched in Q2. So this scheme aimed at reaching 10 million youth in 5 years, offers a very promising path for industry-aligned skills and draws more youth on corporates into apprenticeship opportunities.

So in addition, the UGC also launched the draft guidelines for the Apprenticeship Embedded Degree Programme, AEDP, which allows students to gain work relevant training through both the NATS program, which is a national apprenticeship training scheme, or directly to industry ties as well.

Apart from this from a state level skilling perspective, states are complementing these national efforts with specialized initiatives. Karnataka's Nipuna Karnataka skilling scheme, which is backed by INR300 crores, is focused on skilling for IT and technology sectors with major industry partners. In addition to this, the Karnataka government is also set to roll out the AEDP at 45 government first-grade colleges across the state from this academic year to enhance the employability quotient of its youth. Similarly, Uttar Pradesh, Maharashtra, Haryana, et cetera, are launching tailored schemes to align education with industry demands and focusing on employability in IT, manufacturing and other governments.

So the background is that there is a good amount of tailwind, which is coming from the government. And we'll also talk about how our Q2 performance was. So reflecting on our Q2 performance, our strategic focus has already yielded promising results. We had more than 3,000 new additions across all the apprenticeship schemes, be it NAPS, NATS or the work-integrated learning program. And we saw INR27 increase in our PAPMs, with learning additions increasing by 23%. We added 23 new client logos with 13 of these, including learning solutions and their apprenticeship agreements.

Additionally, our farming efforts have resulted in 27% of our customers incorporating learning solutions, highlighting their value and improving productivity and reducing efficiency. Now our ongoing efforts to evangelize degrees apprenticeships are really building momentum across industries, including manufacturing, capital goods, retail, quick commerce, engineering, electronics and automotive components.

By capitalizing on the heightened interest and learning embedded degree apprenticeships, we aim to create a sustainable talent supply chain that meets the industry needs, enhances productivity and build our future-ready workforce. Thank you so much.

With that, I hand over to Neeti for the specialized staffing.

Neeti: Thank you, Ramesh. Good evening, everyone. From a specialized staffing standpoint, we see that the tech talent demand is showing gradual signs of improvement. However, with the current focus in the industry on resource optimization and upskilling, we don't expect a big surge in open positions right away.

On a positive note, we are seeing growth in many of the GCCs we partner with and further nontech industry by ramping up the digital transformation, which is creating new growth opportunities for us. About 60% of our revenue comes from GCC, and we see that this will continue to grow over the next few quarters as well for us.

Looking ahead to Q3 of FY '25, we expect steady growth in the IT staffing industry, especially in critical areas like cloud computing, cybersecurity, data analytics. Thanks to our specialized expertise and strong client relationship, we are well positioned to capture these positions with a focus on high-margin sectors for sustainable and profitable growth.

We signed 15 new clients in Q2, including 9 large strategic accounts. Our sales pipeline is strong. We are optimistic that this momentum will continue through this fiscal year as well. We are committed to focusing on high-margin customers while fine-tuning our approach with lower margin engagements to boost both profitability and efficiency.

On the financial side, we're strategically focused on high-value projects. Even though our revenue dipped slightly, our profitability has improved over the last few quarters. EBITDA is up by 18% year-on-year and 26% sequentially, largely due to cost-saving efforts and some onetime sourcing and absorption benefits.

Going forward, we're optimistic about IT hiring as digital transformation continues to drive demand for tech talent. While we anticipate moderate growth for Q3, we are proactively reinforcing our strategic priorities. Our initiative signing new client acquisitions, cost efficiency, stronger account management, streamline hiring and technology enablement, we believe that we are all set to keep us resilient and profitable, while we see the demand gradually surging and improving. We are committed to keeping our competitive edge, accelerating these strategies to take on any emerging opportunity and delivering consistent value to all our stakeholders. Thank you.

And with this, I hand this over to Ramani.

Ramani Dathi: Thank you, Neeti. Good evening, everyone. At group level, we had 18,000 head count addition in Q2 FY '25 versus 13,000 in the corresponding quarter of last year. In H1 FY '25, we have added 31,000 head count versus 19,000 for the corresponding half year period last year. While the PAPM pressure continues in staffing, we are focusing on improving absolute profits through operational efficiencies in general staffing and upselling of learning programs in DA business.

Specialized Staffing is flattish on quarterly revenue, but include profitability through cost optimization and higher number of associate absorptions in the quarter. In EdTech business, as we explained in the previous quarter, there is a delay in student admissions owing to UGC guidelines this year. Substantial chunk of EdTech profit get booked in the second half of this year.

In HR Tech vertical, we are evaluating M&A options to expand our product portfolio and client base. Overall, we had 30% growth in sequential PBT this quarter, and we are confident of maintaining strong double-digit growth in sequential profits for rest of the quarter.

Balance sheet metrics, like receivables ratio, DSO, working capital ratio, ROCE, are all steadily maintained. There is an increase in working capital borrowing at EdTech business level, which is in line with the business growth. Free cash stands at INR340 crores as of 30th September 2024. These are the high level comments on quarterly results. We can now move to specific questions from the participants. Thank you.

Moderator: Thank you. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: The first one is on the general staffing business. If I got it right, I think you mentioned that the next quarter will be muted. Did I get that right? That was the first one. And wouldn't be consumer and telecom basically take care of the growth in the third quarter? So that was the first question.

The second question was around the subcontracting cost. It seems to be up meaningfully year-on-year from some INR43 crores to INR121 crores. I think this is the first time you've introduced this data. So what is the context of this cost and which businesses does this attribute to? And what's driving this increase?

Ashok Reddy: Thanks, Nitin. I think while Kartik will give us a little more flavor. I think broadly, we are expecting growth. But the BFSI will mute the quantum of that growth is the fallout. I think other sectoral demands continue to be there. Even BFSI demand continues to be there. But certain RBI regulations, we do believe will kind of suppress that outlook for Q3. But overall, I think we are positive to element of outlook on growth as we look at Q3. Kartik?

Kartik Narayan: Yes. Thanks, Ashok. So this is largely, if you've been following news, I think there is some strictures, which are coming across specific to KYC that RBI is calling out. So we are anticipating is it possible that there might be some sort of a unit response coming in from largely BSFI sector. So that's one aspect of it.

But some of the other verticals that we are seeing, aspects around formalization, both for consumers, the quick commerce aspect of it, which is going to grow and then of course manufacturing, right? So all of those are going to grow nonetheless. The reason why we -- the totality muted, it's a relative thing that we're calling out is -- because BFSI is a large part, not just for the industry, but also overall for economy. So that's why...

Ramani Dathi: On the subcontract expenses, it's specific to the specialized staffing business. Over the last 2, 3 quarters, we have seen aggregation of vendors and IT companies and we are winning some of those aggregation markets. So that's the reason for the increase in subcontract expenses in the P&L.

Ashok Reddy: It's in line with the business.

Nitin Padmanabhan: So it's not something that's driving margins either way. It's overall from a business perspective, the margin profile is what it is. It's not decorative or anything in any way?

Ramani Dathi: Gross margins on subcontracting is minimal. But at the same time, considering the volume on the total size of specialized staffing, which may not deviate the overall margins to that extent.

Moderator: The next question is from the line of Deep Shah from B&K Securities.

Deep Shah: The first question is on this investment in Hire Tech that you highlighted. If you could help us understand a bit more what is this product? And what is the kind of investments? Has those investments started now? Or you're just calling it out now? And in your assessment, what is the implied benefit of this? Maybe if you can -- I mean, it would be great if you can share some ballpark numbers, but just so that we understand that what is this actually. Because I understand this is for your general staffing business and not the other HR that we call out. So that's the first question.

The second question is on the other business. So as you rightly pointed out that second half sales disproportionate profit booking. But this time, there was some timing issue, right, especially in the first quarter. So last year, I see EBITDA of INR12 crores in this business. Can we comfortably assume that you at least draw this number from a full year perspective, given that first half has been really subdued? So would that conclusion be correct that second half this year will be disproportionately higher so that full-year numbers are still better?

Ramani Dathi: Deep, on Hire Tech investments, we are planning for a total spending of roughly about INR20-odd crores of capex starting Q1 of this year, and this would be spend over a period of 18 months. And this is not just for our general staffing business. This particular investment will benefit GS, specialized staffing and the entire employment cluster. Because if we look at our overall expenses and especially the variable expense, the linear cost in all our employment businesses are mainly on the hiring front, on the sourcing front. And with this investment, we believe that the recruiter productivity and our hiring costs can be optimized substantially, and that can directly contribute, one, to higher volume growth; and two, to improve margins in these businesses.

On the second part of your question, EdTech business, yes, we are expecting a double-digit year-on-year growth on profits on annual profits for this year as well considering the muted profitability in H1. Had I address to your question?

Deep Shah: Yes. So just a follow-up. So on this Hire Tech piece, so when you say that -- so this is essentially this will help you higher people yourself? Or it will -- so what exactly does this product do or this investment help our reliance on third party comes down? How...

Ashok Reddy: So we get open positions from customers. In specialized staffing, we delivered 100% of the open positions for growth. In general staffing, we deliver to about 30% to 35% of the positions to growth. In DA, we deliver to about 40% to growth. So these are open positions from various companies and clients that come to us, and we have to work the delivery in terms of functional skill, location and numbers.

What Hire Tech would do is automate the end-to-end of the process and would also create a central repository of a database of candidates with a better matching mechanism that would effectively enable the recruiters to have more active database that is being fed on a continuous basis through various channels and also control the whole delivery process end to end.

Deep Shah: Okay. This is understood. If I could squeeze in one more. We've seen significant announcement...

Ashok Reddy: Voice is breaking, sorry. Your voice is breaking.

Deep Shah: Okay. Okay. Is this better?

Ashok Reddy: Yes.

Deep Shah: So we had a significant announcement in the budget, but if I understand correctly, the final scheme is not yet released. So any progress you could share on that? And -- because I'm sure you are closer than we are. So any progress there? Any reason why it's delayed or anything there would be helpful.

Ashok Reddy: I mean schemes get announced, the devil is in the detail and a lot of sorting out the element of how to implement and the conditions on which to implement are kind of being worked out. So while the whole internship element has technically gone live with a few customers, and we are also working with customers. I think there's a loss that is still to be sorted out from the NPA end.

So I think it will take time for it to get a full form and complete clarity. But I think that clarity and detailing will also work out as people go live to the whole internship model. So there is a huge element of unkowns in the whole scheme, I think only time will kind of sort it out.

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

Amit Chandra: So my first question is on the general staffing. Obviously, we have seen some margin expansion there. So you mentioned about the PAPM increase there. So is the PAPM increase -- because we are seeing the PAPM increase after so many quarters. .

Ashok Reddy: Sorry -- Amit, sorry to interrupt. The PAPM increase was in the DA business. There was a marginal decline of PAPM in the staffing business. But EBITDA improved because of efficiency.

Amit Chandra: Okay. So as you mentioned earlier that we are taking some steps to increase the PAPM in the general staffing business. So where we are on those initiatives and how we see the margins of the general staffing segment panning out over the course of the year? And after this, I have questions on IT and HR, so after this I will take this.

Ashok Reddy: So on the PAPM front, largely the decline in the PAPM is because of the portfolio play. So if you look at it on incremental clients, as Kartik called out being signed, about 70% of new clients being signed are on the percentage model. but they're still relatively small and will start -- will take time to start growing. I think the element of -- we haven't had too many new contracts that have come on board at very low price points and stuff. But the growing clients and volume are the ones with the lower PAPM. So by virtue of that, the weighted PAPM kind of is reducing. We are selling more of the HCM solutions for a little extra markup to customers. We are doing various other initiatives dialogues with customers. But it's just because of the portfolio play that PAPM reduction is there.

Amit Chandra: And also in the general staffing, the margin decline over the last one year has also been because of the decline in the DA business. So now that the DA has stabilized and started to increase, which is typically higher gross margin. So from here on, can we expect some margin increase coming from the contribution from DA also in the general staffing?

Ramani Dathi: That's right, Amit, that we cannot translate that into an exact number because of the reasons which we discussed earlier. Absolute profits definitely, yes. We'll be posting a double-digit growth sequentially. And in terms of margin, there will be an improvement, but the number of basis points is subject to the gross salaries and the top line.

Amit Chandra: Okay. Okay. And on the IT staffing, obviously, we are seeing some signs of improvement, and the margins have also improved. And we have shared that 61% is from GCCs, which has been -- this segment, which has been increasing like within the specialized staffing. So what was this number for GCC last year, if you can share? And also like what was the decline in the IT staffing that you were seeing? And from here, it's like we're seeing stable GCC and like increase in IT staffing. So what can be the projected growth? Or if you can give some directional growth for the specialized staffing for the next year?

Ramani Dathi: So GCC contribution, about 18 months back, was at 40% on revenue. And about the year back, it's at 50%. So we are consistently adding numbers and clients on GCC front, and that's also helping us to improve margins overall. In terms of growth outlook, I would request Neeti to give.

Neeti: Thanks Ramani. Amit, so in terms of the growth that we are seeing from GCC, like Ramani called out over the last 18 months. Every quarter, we are increasingly signing up more and more GCCs. Our focus has been largely on few sectors of GCC like the BFSI side, there's auto, there is life science, health care, there's retail. So we are continuously signing a lot of GCCs in these 4 or 5 sectors. As in when newer sectors come in with higher volumes and requirements, we are actually ready to service them because GCC hiring requirement is very different from services hiring requirements, margins are much higher. But the skill set and the profile of candidates they require is also very different. .

So since we have been servicing a lot of these GCCs. Today, we have about 65 GCCs that we partnered with. We believe that this number is going to grow. In fact, over the last 2 quarters, H1, we signed about 10 new GCCs that are getting onboarded right now as we see. So we know that this growth will continue for us.

Amit Chandra: And on the HR services, obviously, you said that second half, we have higher profits. But for the full year, I think last year, we had around INR12 crores of profit 8.5% margin. So is it fair to assume that for the FY '25 also, we can see like similar profitability? Or is it going to be lower than that?

Ramani Dathi: We will be able to maintain similar profitability in FY '25.

Moderator: Next question is from the line of Aniket Kulkarni from BMSPL Capital.

Aniket Kulkarni So could you speak about the benefit that the employment linked incentive scheme will have on companies like TeamLease. So what is the incremental growth opportunity here that we can see over the next few years owing to these incentives, if you can just reveal?

Kartik Narayan: Yes. So Aniket, largely, for the government policy and elements to the scheme that are announced and the impact will be called up earlier to the DA business and to the staffing business. Issue is that primarily the element of focus on the government side on employment and employability coupled with an element of formalization. Of course, as Ashok mentioned, the details are yet to come out. So we want to wait as to how they translate during the element of the budget statement which has been put into specific.

Ashok Reddy: Yes, sorry. So the details on the specifics to the apprenticeships and the internship, we await the details as this evolves. On the employment linked per se, I think the China Plus One kind of an outlook to saying we improved the manufacturing outlook in the country and stuff will play out over a period of time, but then these are capital first kind of initiatives which will then lead to employment. So we are in dialogue with a number of players coming into India from a manufacturing perspective that over a period of time will give us demand and growth opportunities.

But difficult to call out specific number on that front, because we do believe overall manufacturing will grow. And since we do have a presence in manufacturing, we will kind of back that up.

Moderator: The next question is from the line of Sumit, who is an individual investor.

Sumit: I had a question on the claims under the 80JJAA. I know this has been going on for the last few years. My question was actually just twofold. There is a note in the consolidated statement mentioning that the IT department has given a notice for the 2016 and '17 claims. I know there's a reputation in front of the high court and you have the nameless IT task force passports, which you had already filed it over the last 2 years. On last quarter's con call, you had mentioned that you've got full allowance for the 80JJAA claims. So what am I missing? Is this led to rest and if everything is okay? And why are the specific you talking about 2016, '17? Why not '20, '21, '22, 2023? Is there something different about those? And finally, is there any provisions we need to make for the same?

Ramani Dathi: So regarding 80JJAA, so far, for us, there are no outstanding demands, and we have received full refunds up to FY '23. So the only pending refund is for last year. In fact, even for current year on low reduction certificate when we applied for the LDC certificate, we received full relevance for the 80JJAA claim as well. So to that extent, we are not seeing any kind of risk with the continuity of this particular section.

However, reopening the assessment of 2016 and '17 is more likely going with the time buying of income tax assessments, because 8 years is the time barring limit. So that's the reason we believe those were reopened and kept, but whatever queries that have been given to us, we have been providing the documentation and addressing them. So we are not seeing any kind of challenge with respect to the computation or the amount of claims that we made under the fix.

Moderator: The next question is from the line of Nikhil Choudhary from Nuvama Wealth Investment Limited.

Nikhil Choudhary: My first question is regarding the INR200 crores capex announcement on the hiring platform. So just want to understand what kind of margin benefit we are expecting from that platform? So I just want to understand the ROI calculation, which you must have done, for that INR200 crores capex? So that's first one.

Ashok Reddy: INR8 crores, Nikhil, not INR200 crores.

Nikhil Choudhary: Okay. My bad. Okay. Then second one is on IT hiring. We have seen a sequential decline in specialized staffing revenue for us. That is despite the fact that the IT services company for the first time did net hiring? And also subcontracting expense for IT companies were almost flattish on a sequential basis. So first is around what caused the decline from IT services? And second, any early color based on the mandate you must have received for coming quarters, specifically outlook for H2?

Neeti: So Nikhil, Neeti here. On the IT services hiring bit, while there are a lot of open positions that are coming in, closures are actually taking slightly longer than what it used to happen earlier. I'm talking about 18 to 24 months time frame. So we don't -- so we have not done an addition on the IT services hiring. Most of the hiring has come from GCCs and the nontech sector, at least in Q2.

To your next question on Q3 outlook, we have mandates, but again, they are not a very high number. We don't see a dramatic surge in the demand right away. I think that's going to come in gradually. A lot of hiring that has happened, and I know that a lot of new fresher hiring that has also been opening up. But the closures, like I mentioned are taking time. It is going to -- in a way, the way we look at it, Q3 is going to be a little slow from services side continue to -- we are just looking at -- sorry -- so we are just looking at growth from GCCs and non-tech sectors. Our net growth will be positive, something that we have not actually been able to do in H1. But Q3 onwards, we believe that there will be net additions, and we will see growth from the IT hiring sector.

Moderator: The next question is from the line of Rohit from ithought PMS.

Rohit: Just 2 questions. So one, on this 80JJAA, till when do we continue to get this benefit and what is the threshold? That was my first question.

Ramani Dathi: Yes. On 80JJAA, as of now, there is no sunset. So we continue to claim this benefit under our staffing business. So in stand-alone TeamLease financials, our effective tax rate can be 0 going to 80JJ benefit for at least for the next 3- to 5-year time frame. However, we are making profits at our subsidiary levels both in specialized staffing and HR tech services. And we believe the effective tax rate would go in there between 8% to 10% starting next year.

Rohit: That is for the company, you're saying 8% to 10%?

Ramani Dathi: That's right. That's right.

Rohit: Got it. Okay. That's helpful. And the second question was on the general staffing business. We've seen, I mean, margins while you've been growing top line and you've been articulating the kind of pressure that the bigger clients have been posing for you. So 2 questions here. So one, have the margins bottomed out for you in your sense? And two, I mean, on a longer-term basis, let's say, not in the next 2 quarters, but let's say, 3, 4 years out, is this the margins what we used to earn here probably closer to 2% here, that is not possible given the kind of consolidation that you -- I mean the play or the bigger customers. Is that -- I mean, I just wanted to get your sense from a longer-term perspective.

Ashok Reddy: So I think taking the element to 2%, the wage increases are higher than our realization increases. And that's really where we called out that the staffing business will be the growth engine and absolute profits will improve on that front. The portfolio of the other businesses, which are higher margin starting to contribute, will overall improve the TeamLease margin story.

Rohit: And you think the margins have bottomed out in general staffing?

Ashok Reddy: I mean as of now, yes, like we called out, the growth is starting to reflect back in the EBITDA improvement, and we believe that, that will sustain.

Rohit: Got it. Got it. And just one more question, if I can. On your HR services, I know there is a lot of seasonality and H2 is usually better and Q1 is usually very subdued. But on a full year basis, what kind of margins -- because I think we had restated a few things in terms of the division. So I just wanted to understand what kind of margins on a full year basis do you think are sustainable in your HR Services business as a combined -- I mean there are multiple heads there. So just wanted to get your sense as a combined segment that you report what kind of margins do you sort of sustain there on a normalized basis for a full year?

Ramani Dathi: So at annual level, we should be able to make 6% to 8% EBITDA margin in other HR Services this year, and that can improve to 8% to 10% sustainable margins in the coming years.

Ashok Reddy: So we have 3 businesses that are kind of included in there. There is the EdTech, there is the RegTech, there is the HCM. The EdTech business has been profitable, has the highest seasonality element from our Q1 being really bad to there on improving because of the admission cycle in line with the UGC guidelines. The RegTech business is consistent, has become profitable and we'll stay on that trajectory and has been also growing. HCM is the only one where we continue to make investments. We're looking at complementing the HCM business with some element of inorganic additions also so that it gets heft and product portfolio. So with that, I think the element of the margin improvement should come through as we look forward.

Moderator: Next question is from the line of Vikas from Antique Stock Broking.

Vikas: Just one question, the impact led by BFSI, which we have called for Q3. Is this just a 1 quarter phenomenon? Or do you think something may go into Q4 as well? And any margin implication in Q3 because of this impact?

Ashok Reddy: We think it should be just a Q3 impact because of the specific guideline issued and hence an action to be taken by the NBFCs on that front, subject to no new guidelines coming from RBI to the institutions. So we believe it should be just the Q3 impact on that front. While outside of that, we do have demand from other clients, and we do see growth happening in the sector. Net of this, too, we do not think it will have an impact to the margin element.

Moderator: The next question is from the line of Aasim from DAM Capital.

Aasim: So 2 numeric questions. I think you mentioned in your opening remarks, you called out some onetime benefit in specialized staffing EBITDA besides the cost optimization. Can you tell me the nature of that and if we quantify it? And second, the PAPM on general staffing, you said it's down Q-o-Q. Again, if you could quantify the Q2 PAPM number?

Ramani Dathi: So in specialized staffing this quarter, we had close to about INR80 lakh of absorption fees, so which is a onetime sourcing fee that we get from clients. Every quarter, we have about INR20 lakhs, INR30 lakhs. So it's not something that is unusually high. So this number can continue into coming quarters as well. On the second item, the PAPM in staffing is down by about INR9 in this quarter.

Ashok Reddy: INR6.79 to INR6.70.

Aasim: INR6.79 to INR6.70. Okay. And second question. So maybe if you can give some outlook on how to see GS margins going forward. So I think 2% we saw long back. I think that's perhaps now history. We are at 1% now in Q2. Ex of DA, would margins add best be in this 1% to 1.1% range, and maybe perhaps if DA ramps up as the way you expect it, maybe overall GS margins go to say 1.2%, 1.3%, even 1.5% looks like a very difficult road ahead.

Ramani Dathi: Sorry to repeat myself again and again, we cannot give any outlook on margins, because of the same reason that we have no visibility on the average salaries, which industries grow, which profile grow. However, on absolute profits, we are confident of maintaining double-digit growth sequentially. And even on a stand-alone basis, staffing has a potential to expand margins up to 1.5%. But again, that's subject to whether it is going to happen in the 18 months or 24 months is subject to external behaviors as well.

Aasim: I understand the difficulty on that bit, but still from a -- since that 90% of our business is general staffing, I'm assuming that you might be like trying to budget something when you guys brought long-term plans. So that's why I was just trying to get in. Right now, are we -- so we are possibly at the bottom. I'm just trying to get a sense where the top might ideally be.

Ashok Reddy: We don't have a view on that top right now, Aasim.

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

Ashok Reddy: Thank you very much. So I think just in closing, we continue to be optimistic on the outlook across the businesses for the coming quarters. Also, our planned investments in Hire Tech and HR Tech Solutions, both organic and the inorganic element, will give us enhanced capabilities in the coming quarters. I think as we grow, it will play into the aspect of productivity and profitability for the company and lead to the margin improvements going forward.

We are quite optimistic on growth as a function of the demand and the outlook that we are seeing from the corporates that we deal with and are also working aggressively to add more new client logos on board across our businesses. Look forward to your support, and we'll continue to deliver as we go forward. Thank you very much.

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