alldigi Tech
Formerly Allsec Technologies

October 31, 2024

**Listing Department,**
BSE Ltd.,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400 001
Scrip Code: **532633**

**Listing Department,**
**National Stock Exchange of India Limited,** "Exchange Plaza",
Bandra - Kurla Complex, Bandra (East),
Mumbai-400 051
Symbol: **ALLDIGI**

**Sub: Transcript of the Earnings Conference call**

Pursuant to Regulation 46(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that the Transcript of the Earnings Conference call, conducted through digital means on October 25, 2024; shall be uploaded on the website of the Company under the following link: www.alldigitech.com/investor-information/ (Financial Information/ Investor Call Tab).

Kindly take the same on record.

Thank you,

For **Alldigi Tech Limited**
(Formerly known as Allsec Technologies Limited)

NEERAJ MANCHANDA
Digitally signed by NEERAJ MANCHANDA
Date: 2024.10.31 15:24:57 +05'30'

**Neeraj Manchanda**
Company Secretary and Compliance Officer
Encl.: A/a

# "Alldigi Tech Limited"

(previously Allsec Technologies Limited)

## Q2 and H1 FY 25 Earnings Conference Call

## October 25, 2024

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| **MANAGEMENT:** | **MR. NAOZER DALAL – CHIEF EXECUTIVE OFFICER – ALLDIGI TECH LIMITED**<br>**MR. AVINASH JAIN – CHIEF FINANCIAL OFFICER – ALLDIGI TECH LIMITED**<br>**MR. KUSHAL MAHESHWARI – HEAD, INVESTOR RELATIONS, QUESS CORP LIMITED** |
| **MODERATOR:** | **MR. BALAJI SUBRAMANIAN – IIFL SECURITIES LIMITED** |

**Moderator:** Ladies and gentlemen, good day, and welcome to Alldigi Technologies Q2 and H1 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 and 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. Ladies and gentlemen, good morning, and thank you for joining us on the post Q2 FY25 Results Conference Call for Alldigi Tech Limited. It's my pleasure to introduce the senior management team of Alldigi Tech, who are here with us today to discuss the results. We have Mr. Naozer Dalal, CEO, Mr. Avinash Jain, CFO, and Mr. Kushal Maheshwari, Head, Investor Relations, Quess Corp Limited. We will begin the call with opening remarks with 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 Alldigi Tech Q2 FY25 and half year FY25 earnings call. The information, data and outlook 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. The results and presentation have been uploaded on our website for your reference. Please refer to Slide number two of the investor presentation for the Safe Harbor clause.

With that Safe Harbor, I will now hand over the call to our CEO Mr. Naozer Dalal for his opening statement. Over to you, Naozer.

**Naozer Dalal:** Thank you so much, Balaji, and Kushal. Good morning, everyone. Thank you for joining our earnings call today. I'm looking forward to interacting with each one of you. I also have with me Mr. Avinash Jain, our newly appointed CFO, to take you through the quarterly results. And of course, we will follow it with a Q&A session. I think this one is the first interaction we're having as Alldigi Tech, and then this rebranding represents another milestone in the journey of your company.

We have rebranded ourselves Alldigi Tech Limited, which encapsulates our commitment to cutting-edge technology, reflecting our innovative offerings for our customers. We started with a strategic value-added partner product plans with our comprehensive suite of digital offerings across service lines. The prefix ‘All’ in the new name also provide the link with the values we have stood for over the last so many years; customer centricity and customer first. So in conclusion, the new name signifies continuity with change.

Moving ahead, let me start with quarterly highlight with some banner headlines.

We reported a healthy quarter with Q2 FY 25 revenue from operations at INR131.4 crores, up 17% Y-o-Y and 1.6% quarter-on-quarter led by broad-based growth across both the verticals. It is important to consider that the Y-o-Y growth is despite selling our local level compliance business, which was concluded in the previous quarter. Adjusted for that, organically we grew 24% plus Y-o-Y.

CXM vertical grew at a healthy pace of 30.4% on a Y-o-Y basis and 2% on a quarter-on-quarter basis, while payroll business grew by 10.9% on a Y-o-Y and 8.7% on a Q-o-Q basis. Our reported EBITDA was INR30.8 crores, delivering a 21% Y-o-Y growth, also leading to margin improvement of 80 basis points on a Y-o-Y basis.

Higher cost of readiness linked to ramp-ups and the BCP situation in Manila in the current quarter and small ramp-ups in the domestic business, which changed the domestic-international mix marginally has led to our EBITDA levels remaining flat as Q1. While our PBT is at similar levels Y-o-Y, our net income is INR12 crores, down 25% Y-o-Y, primarily due to higher ETR on account of dividend withholding tax impact from Manila, which in the previous year, was accounted in Q3.

Employee records were higher by 6% quarter-on-quarter and 13% year-on-year having processed 4.3 million employee records in Q2, maintaining our core position in the managed services space. Our cash position and collections continue to be strong. Our collections for Q2 FY25 improved to INR140.6 crores also leading to the improvement of the OCF generated.

The share of international business in our overall revenues was 62% for H1 FY25 versus 56% for H1 FY24, an improvement of 6 %. Our operational SLAs across CXM remain green as they make the journey to being more digitally enabled in our solutions for new customers and service delivery for existing customers. Our key asset in the EXM space, accuracy and ontime deliveries for payroll remained close to 100% and better than Q1.

We have made considerable progress on our tech projects. Our transition plan for migration to Smart Pay 4, Sp4 is progressing as per schedule. Currently, we have 30 plus clients live on the platform with close to 1 lakh payslip count. More importantly, all new migrations since April are being done directly on to the SP4 platform. Buzzily, our offering for the SMB space is also gaining traction with good funnel build and first deal signed in the last quarter.

Moving to our business growth. Our overall pipeline across both CXM and EXM verticals continues to remain strong. In EXM, we signed 12 new logos with an ACV of INR6.6 crores during the quarter. Similarly, in the half year period, we signed ACV worth INR17 crores, a 12% increase over the same period last year. We continue to add more logos, whilst also gaining a higher wallet share from existing customers. During the period, we added 2.6 lakh employee records closing Q2 at 43.3 lakh employee records, as I mentioned earlier, a 13% year-on-year growth. We have added a sales resource in South Africa, and the focus on international EXM sales will continue as more than 50% of our current sales pipeline comprises of international opportunities.

In CXM, we added four new logos and new business with existing clients aggregating to ACV of INR9.6 crores. We also worked on sales partnerships to supplement on-ground sales efforts, participation in RFPs, etc.

We have recently entered 25th year since having commenced operations, and we will be 25 in '25. On the employee engagement front, we keep evolving ourselves to be a better place to work, higher reach, higher ratings and positive feedback on social media, Glassdoor, AmbitionBox, etcetera, is a testament to our employee engagement.

With this overview, I'll now ask my colleague Avinash to give you a brief on the quarter's financial performance. Thank you.

**Avinash Jain:** Thank you, Naozer, and good morning to you all. To start in on operational revenue, operational revenue for the quarter is INR131.4 crores, a growth of 17% year-on-year and 1.6% quarter-over-quarter. We have grown across both the verticals. CXM vertical grew by 30.4% year-on-year and 2% quarter-on-quarter. Our EXM payroll reported a growth of 10.9% year-on-year and 8.7% quarter-on-quarter.

In CXM, management focus is to increase salience of international business, which is margin accretive to the overall CXM margin. International business grew by 33.7% year-over-year and domestic business grew by 21.1% year-over-year. However, during the quarter, sequential growth was driven by a domestic business at 6.9% quarter-on-quarter growth, while international business grew marginally. Within the EXM business, International business grew at 8%, while domestic business was up at 12% year-on-year. International business share within EXM payroll currently stands at about 30% level.

Moving to the margin section. Our EBITDA for the quarter stands at INR30.8 crores, a growth of 21.3% year-over-year and down 1.2% sequentially. Our margins for the CXM business grew by 50.6% year-over-year and declined 9.7% quarter-over-quarter. While over the years, the segment margin has expanded 180 basis points, sequentially there was a dip as we saw growth of the domestic CXM business during the quarter.

Our margins for EXM business were down 17% year-over-year, owing to change in methodology of apportioning the overhead costs. Sequentially declined by 1.6% attributable to the non-cash forex loss in Manila geography. Our PBT stands at INR20 crores, declined by 50.2% quarter-on-quarter due to one-time gains on the sale of the LLC business in the previous quarter. On a year-on-year basis, PBT is up by 2.6%.

PAT for the quarter is INR12.1 crores, down 25.2% year-on-year and 62% quarter-on-quarter. PAT is lower on a yearly basis, primarily due to the forex translation loss and higher effective tax rate on account of the 15% dividend withholding tax impact for Manila. As Naozer had updated, the dividend was paid in Q3 of previous year and therefore, the impact came in Q3 of previous year.

Now I move to the half yearly results. Revenue for H1 FY25 is INR260.8 crores, a growth of 18.6% year-over-year basis. EBITDA for the half year period is INR62 crores, a growth of 24.2% year-on-year. Reported PBT grew by 57.2%, while PAT grew by 37.8% year-on-year.

Moving to the vertical performance. CXM revenue for H1 is INR191.5 crores at a growth of 31.5% year-on-year. International business grew at a higher rate with international contribution currently at 74% vis-à-vis 72% last year. Consequently, CXM segment EBITDA grew at 53.3% on a Y-o-Y basis, with margins expanding by 200 basis points to 14.4%.

EXM payroll business grew by 10.9% on a Y-o-Y basis, segment margins declined by 10.5% on a Y-o-Y. Margins continue to be above 30% level. Employee record volumes increased by 11% on a year-on-year basis. With this, I conclude the updates on the financial results.

Lastly, I would like to wish you all the upcoming festive season starting from Diwali to Christmas and New Year. With this, I pass on the mic to moderator to take up your questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harsh Kundnani from Aionios Alpha. Please go ahead.

**Harsh Kundnani:** Hi! Thanks for the opportunity**.** A few questions from my end. Firstly, on the EXM business, both on the revenue and margin side. So, on the revenue side, collection growth since the past few quarters has been strong and so as the ACV number. But yet, if I see on a like-to-like basis, on a Y-o-Y basis, growth has been around 10%. So anything that you would like to call out there?

Secondly, even on the margin front, now that in this quarter, the compliance business is not in the base and that was a low margin business. Yet on a quarter-on-quarter basis, CXM margins are down by about 70 bps. So just wanted to understand that also.

And lastly, I would like to understand this deduction under Section 80M, which you have mentioned in the footnotes. What exactly does that pertain to? And what impact does it have on the other income? And what would be the actual other income for the quarter if you remove this impact as well as the forex loss, hedging loss?

**Naozer Dalal:** Yes. So I would like to clarify that our payroll business revenue continues to show a strong uptake. It's 8.8% higher quarter-on-quarter and this is not adjusted for the LLC business, which we had for a month in the month of April. So if I adjust that, the growth goes in the 10% to 12% range. I think that's a pretty decent growth for quarter-on-quarter.

As I've mentioned last time, there were certain additional costs which we had to take, which continued for some time in July, and that is the notice period of senior resources who continue to be with us till 31st of July. So as far as revenues are concerned, I think we are in the right direction. As I mentioned, we continue to have a strong pipeline and we'll continue to convert them into the rest of the year.

On the specific question on the tax rate, I'll hand it over back to Avinash.

**Avinash Jain:** Yes. See, basically, the dividend tax, which is withheld in Manila, we take it as an expense in the quarter in which it occurs. And during the year-end, we file it in the income tax return for a refund. And in the year when the refund comes, then that income will be recognized in the books of accounts. So I hope this clarifies your question, Harsh.

**Harsh Kundnani:** So just a follow up about that, so when does this happen exactly? I didn't understand the timelines for it?

**Avinash Jain:** Typically, the income tax assessment takes 1 to 2 years' time for the refund to come. So there would be a lag of 1 to 2 years for this money to be received back.

**Harsh Kundnani:** Right. And that would be reflected in the other income line item, is it?

**Avinash Jain:** Yes.

**Harsh Kundnani:** Just a follow-up on the EXM bit. Naozer said that there was some additional expense that would go away from the next quarter and we should see margins trending to the 33% to 35% levels in EXM.

**Naozer Dalal:** So, there is one-time deduction which we have done. So as we said, I mean, there is a certain methodology in terms of how we were allocating corporate overheads across the company. So that impact of about 1%, 1.5% will continue to remain going forward, but that's just an internal left pocket, right pocket adjustment. So I would say that the margin, yes, I mean we would bring it back to about 32% going forward, I mean, between 31% and 32% going forward. Because the change has been embedded down to our numbers and will continue for the future also.

**Moderator:** The next question is from the line of Ankit Minocha from Adezi Ventures Family Office.

**Ankit Minocha:** Yes. So we are new to the business. But we just wanted to understand the longevity of a business more than anything else. So, on both your domains, firstly, when you look at EXM, would we be right to suppose that SaaS companies that are coming in the HR payroll space, those are a threat to the EXM business? That is an assumption, and we just want you to comment on that.

And secondly, in the CXM, I mean, the growth trends are strong right now, but considering that you're filling up on capacity, then do we see growth as a constraint 1 year down the line. So these are slightly antithesis pointers for us but we just want to get clarity on this.

**Naozer Dalal:** Sure, valid questions. So Ankit, on the EXM front, I just want to draw a distinction. So our current offerings and our current business model is in the managed payroll services space, which is suitable for the large enterprises. So we are leader in managing complex payrolls. We are a leader in integrating across, say, blue collar and white collars payrolls, and we are the market leader in that. I mean at about 15 million payslips a month, I mean we are about 50% higher than our 2 nearest competitors.

But valid point, there is a large SME market in India and the SME market in India who prefers running payroll on a SaaS model, and that's the tech investment which we have made over the past couple of years into a product called 'Buzzily'. And we are in a market, we have hired a resource to sort of help us build the funnel. We have built a reasonable funnel in the last 1 quarter. And we will continue to be out there, and sell Buzzily, which is going to be our SaaS offering for the SME market. So, we are pivoting in this. We'll continue to invest in and grow our managed payroll services business and we'll continue to invest and build into the SaaS business. But as we all know, and I mean, all the SaaS companies which you mentioned are value destroyers in a sense because they all come with negative EBITDA. So what we will continue to focus on is profitable growth in the SaaS market, as also continuing to invest in and build the managed services payroll market.

On CXM yes, we are close to filling our Manila center capacity. In this quarter, we have added about 250 seats in our Chennai operation. And we will continue to invest in capacity marginally ahead of time as we continue to get clarity on new orders and new order bookings so as to not carry any significant cost of spare capacity for any elongated period of time.

**Ankit Minocha:** Okay. Thank you. And my second question pertains to a little bit more of what the previous participant was asking. So I think I understand that with regard to CXM, that as a sale in the business and then 10% growth, which you thought was decent quarter-on-quarter. But from what I believe 2 quarters back, we were envisaging around 20% growth for the CXM business for the year. So is that something that we have now relatively lower expectations on? Or do we think that this will kind of come in, in the latter half of the year?

**Naozer Dalal:** No. We are confident in the CXM business by the time we end the year would have in excess of 20% growth for the year-end. So there's no change from the initial estimate which we had provided.

**Ankit Minocha:** Okay. So revenue for the year would be 20% higher than the last year, right?

**Naozer Dalal:** Sorry, I thought you were asking on the revenue growth, right?

**Ankit Minocha:** Yes. Correct.

**Naozer Dalal:** Yes. That's what I'm saying. So the revenue growth will be definitely 20%-plus by the time we close financial year '25.

**Ankit Minocha:** Okay, thank you.

**Moderator:** Thank you. The next question is from the line of Raghuram N S from Eurindia Ventures. Please go ahead.

**Raghuram N S:** Hi Naozer! Hi Avinash! Yes. Many hearty congratulations and a warm welcome to the Alldigi Tech team. I had four questions. First one was on the new client additions on CXM. Obviously, there has been some additions, but I would imagine if we have to sustain significant growth about 20%, our ACVs have to really ramp up over the next couple of quarters. So any plans for that? That was the first question.

Second, great to see 2.6 lakh payroll additions for this quarter. I think it's been a very significant addition. I just heard you mention that you will end the year at about 20% growth on EXM also.

So that is something that is very, very heartening. And if you can just help us with whether that will be led by international payroll revenue growth or by even kind of a mix of international and domestic.

The third thing, you did mention about the methodology of apportioning overhead costs. I think there is a lot of, you can say questions that you can maybe see on the EBITDA margin trend for EXM. So if that is put back to the old methodology, what would have been the EBITDA margin? It was trending at about 33.5%, even including compliance. But now without compliance, it is still down to about 31%. So if you can just help us with what will be the trend if you revert back to the methodology? You did mention 1%, 1.5%. But in terms of overall numbers, what would that be?

And basically, on CXM International, obviously, 74% is the revenue now going on a quarter-on-quarter basis. Is that something that is sustainable as a distribution of revenue percentages or will it even increase further? So if you can...

**Naozer Dalal:** Sorry, I didn't get your last question.

**Raghuram N S:** About 74% is what now it has come to CXM International.

**Naozer Dalal:** Yes.

**Raghuram N S:** So is that something that is going to increase even further? Or is this a level where you expect it to be sustainable? And recruitment charges one-off, is that something that was just only for this quarter? Or do you expect that to continue maybe going into 1 more quarter?

**Naozer Dalal:** Sure. I'll take both your EXM questions together because both are linked in a sense. So I think we have had good addition of new logos. We have added 3 new logos in CXM. Post quarter end, we've added one e-commerce logo, which is an international and it will be sizable ACV, and we'll announced it in this quarter. We have grown from mining of existing customers. So we have grown additional LOBs and growth in existing LOBs from the healthcare client, which we serviced.

As I mentioned in my speech, we are trying to do alternate channels of growth over and above having people on the ground in the U.S. So we are looking at partnerships. We have tied-up with consulting firms who can support and find key products on a variable basis. Who can drive the relevant RFPs to our doors.

So, we are doing a lot of deliverable stuff which we haven't done in the past, which we do to improve the channel, the quantum and the channel mix of the leads, which we generate. Raghu as you know, within CXM, the domestic play is, we don't go out selling domestic business. So, like this quarter, I mean there could be some ramp-up for our existing customers, which we definitely service. And that could change the domestic-international mix, very, very briefly in a particular quarter as happened in the last quarter, where we saw slightly higher growth in domestic than international. But directionally, international is what we focus on in Alldigi. And definitely, the 74% mark, which you see, I mean, we'll continue to have an upward spiral into the future also.

Coming back to your EXM questions, Again, within EXM also the direction is clear that we will continue to focus on the international business. When we started the year, we have taken an internal target of the new sales, at least 60% of this new sales should be international, and we continue to go there. In fact, on a YTD basis, of the new sales book, we are in about 74% international, but that of course because of a one-off large deal which we got in Q1.

But the direction is pretty clear. And as I also mentioned in my speech, the current pipeline of 55% of leads, which are international. So there is no going back to the strategic direction that we'll continue to focus on incremental international business. And as far as the methodology is concerned, I have already mentioned, and there is nothing more to add to that. So we will see how do we come back, as I said, it has been complete settled, so there were residual charges of the LLC business in Q2. So we'll have to wait and see.

**Avinash Jain:** But overall, on EBITDA trend, we have 31% and just trying to improve on that margin.

**Avinash Jain:** Specifically on your query, Raghu, against 30.5%, it would have been 31.6%.

**Raghuram N S:** Okay, I understand.

**Naozer Dalal:** Operator next question.

**Moderator:** Thank you. The next question is from the line of Bhavin Shah from Latent Advisors. Please go ahead.

**Bhavin Shah:** Again, I think a couple of questions from my side. One is while going back on the margins, still trying to understand, and already mentioned it twice in the call earlier, the reduction in EXM despite compliance going out, coming to 31.5%, is it because of ramp-up and can we expect it to go back to 33%, 34% or because of the adjustments that you've done, it will remain at around 31%-odd. That's one.

The second question is in the CXM side. I think one of the notes has mentioned there's been a onetime cost of recruitment leading to lower margins of around 13.5%. Can we expect that for the rest of the year to go back to 15%-plus or because of the change in mix, it will remain around where it is right now?

And the third is, despite margin correction in both the segments, even unallocated costs have gone up. What would kind of from an overall level, we are seeing a triple impact growth in each segment as well as unallocated expenses. I wanted to understand if one could get a sense on the unallocated expenses trending up. Those are the questions from my side?

**Kushal Maheshwari:** Bhavin, we could just catch the first two questions up to the recruitment cost. After that, we couldn't catch up what was in the next questions.

**Bhavin Shah:** The third was around the unallocated expenses, which have also trended up in the current quarter. Wanted to know is it a result of some realignment of expenses and recognition or is it some onetime expense or do we expect higher unallocated expenses as well going ahead?

**Naozer Dalal:** Coming back, Bhavin, at the cost of repetition, I'll again say that we will get back to the EXM margin somewhere between 32% and 32.5% very soon. As I've said, the one-time impact of this change has been 1.1% and that will continue to remain. I'm not sure which unallocated expenses you are talking about. And then the last bit before I hand over is on the recruitment charges, yes, it's linked to the growth which we expect in Manila.

So, whilst we had it last quarter and we are trying to control it, we will see some overhang of it in this quarter also. We are constantly trying to improve our free channels of recruitment. As you know that in every business, we encourage direct walk-ins and internal referrals, employee referrals. So we will continue to do that. But it's a question of balancing revenue realization and the recruitment cost. So, I think it's a mix of that. So we'll continue to work out very, very well controlled fine line on that and see how do we continue to optimize revenues and minimize recruitment costs going forward also. And can you help us out with what are these unallocated costs you're referring to?

**Bhavin Shah:** Sir, just on CXM, do we expect the margins to move back to the 15% trend that we had...

**Naozer Dalal:** Yes, definitely.

**Bhavin Shah:** So on the unallocated costs, I'm looking at your presentation and refer to your financial results, on the segment wise where your unallocated costs for the quarter are around INR3-odd crores, I would say?

**Kushal Maheshwari:** Can you give us this question separately.

**Naozer Dalal:** Yes that will be better.

**Kushal Maheshwari:** We will revert back to you. Any other question?

**Bhavin Shah:** Let me take that offline. That's all from my side. Just one last question is if I look at our new logos won and the ACVs, I think they seem to kind of suggest that our ACV per client seems to have reduced substantially in this quarter for the new logo. Is that because of direction towards SaaS or is it more the nature of the market?

**Naozer Dalal:** No. In fact, if I take the EXM business specifically we had one large deal in the Q1 which was uncharacteristic and tilted the ACV. So you are right that, I mean, against an average ticket size of just about INR1 crores in quarter 1, in quarter 2 we are at INR55 lakhs, but if you go back to quarter 2 of last year, we were at INR61 lakhs. If you look at H1 of last year, we were INR43 lakhs and in H1 this year, we are at INR77 lakhs. So definitely, this has not been impacted by SaaS because as I said on SaaS, we have just booked one deal.

While of course, the desire is to sort of go after large deals, but it does move a little bit up or down quarter-on-quarter or half year on half year, depending on the nature and composition of the deals which come in. So just to reiterate on H1 to H1, we were INR63 lakhs last year and we are about INR1.1 crores average ticket size this year.

**Bhavin Shah:** That's all from my side. Thanks for your answers.

**Moderator:** Thank you. The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

**Kumar Saurabh:** So I have sir three, four questions. One, in both lines of business who are our competitors? And what is the competitive advantage we have? Second is on the opportunities and risks which have emerged with the progression of GenAI and NLP? And third, do you still see operating leverage possibility in the EXM business? These are the three questions I have?

**Naozer Dalal:** Sorry, could you repeat your third question, please?

**Kumar Saurabh:** Do you see further operating leverage possibilities in the EXM business?

**Naozer Dalal:** Yes. Sure. No, I've answered the third question already. Yes, we definitely see operating leverage in the EXM business going forward. Coming back to your first question, as I mentioned we are in the managed payroll services market. So we are pretty uniquely positioned there. So the other notable names in the market are some of the multinationals operating in India, ADP, Ceridian. There are domestic players like HCGS who are there. So those are who we compete with in the EXM space.

On the CXM space, I mean we have pretty unique positioning. So, we do not compete definitely with the big names like TCS or an Infosys for the international business. So I would say our competitors are similar sized companies like Fusion BPO, 24/7 AI and those would be the names of our competitors. See, what I would like to reiterate is that on the CXM side, we are definitely a value for money and a value-adding niche player.

So in terms of size, I mean, there are significantly larger players. But I think the important part to know is that once we win a customer, we are able to establish our credentials and our operational efficiency very quickly. We are able to grow with that customer fairly significantly in a short period of time and we're able to retain our customers. So both on the international, there are customers who have been with us for the last 20-plus years, pretty much similar to the time we have been operating. Our customer retention rates are significant. So those are the values which we bring on the CXM side.

**Kumar Saurabh:** And sir, what are the opportunities and risks we see with GenAI and NLP?

**Naozer Dalal:** Yes, I'm coming to that. So again, we have fortified our position in the market. So we are looking at a wrapper of 6 to 7 bolt-on solutions, which we are happy to work with our customers. So those solutions range from quality monitoring range from how do we improve sales conversions, how do we ensure that internal AHPs are handled faster, so that I mean the number of calls the person can take goes up. So we are mindful of the risks and we believe that a man-plus-machine model would be the way to go forward.

We also run certain businesses which give us an internal moat. So, for example, the sales business, where we do a lot of cross-sell, upsell for some of the large customers or the collections business which does, whilst even collections is part of collections has become low touch, no touch. So there will be that last-mile human touch requires for some of the higher buckets and some of the written-off cases. So the kind of businesses we run, our approach to sort of look at a man-plus-machine model, we believe that we are reasonably well-poised into the medium term.

**Kumar Saurabh:** Okay. So you don't see any risk on the CXM business in terms of growth or margin because of these technologies disrupting the industry?

**Naozer Dalal:** No, nothing significantly, yes.

**Kumar Saurabh:** Okay. Thank you sir. I will go back in the queue and best wishes.

**Naozer Dalal:** Sure. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ankit Minocha from Adezi Ventures Family Office.

**Ankit Minocha:** Yes. Thanks for taking my question again. So firstly, if I was to compare your, if I was a client and if I was comparing your offering to say the offering of a Workday or a Taleo, would that be a right comparison? And secondly are you a much superior value proposition versus them? I mean, what would be your selling point versus, say two of these competitive softwares?

**Naozer Dalal:** Yes. So I think our largest USP, whilst, of course, on a product by product or module by module the jury could be out. I mean, we will be better in some the names you mentioned could be better in others. But I think what we bring to the table is our ability to customize, because many of the products which you mentioned, I mean, come as a package very very difficult to customize or it may take a long time at a significant cost. So I think our ability to customize, our ability to be agile I think are our USPs compared to the products you have named.

**Ankit Minocha:** Understood. And from the value proposition what would be your take on that?

**Naozer Dalal:** Our value proposition on the managed payroll, so the earlier question is related to the HR/HRMS side. Our value proposition on the payroll side, as I said is value for money in terms of pricing and again our ability to handle complex payrolls, which may require significant customization, so for example, I mean, for one of our facilities management clients, I mean they in turn have deployments at maybe 30, 40, 50 of their customers. So, each customer has a different method of capturing a time sheet. Each customer has a different holiday list. Each customer has a different part time, full time. So as one example, the ability to sort of integrate, to take data from multiple sources seamlessly to run payrolls at different timelines, for permanent staff, temporary staff. So any kind of complexity which is there, any organization which is facing complexity in its payroll and that also brings us the benefit that we can look at getting large organizations reaching out to us. So that's where we come in, customization and agility.

**Ankit Minocha:** Understood. Thanks for the color. Secondly, I mean, there was other income of around INR17 crores to INR18 crores I think in Q1. I assume that, that would be onetime? And what would be the guidance for the other income for this year?

**Naozer Dalal:** So, the other income in Quarter 1 was largely the profit on sale of our local level compliances business to Aparajitha Corporate services. So that is clearly a one-time and it's not going to be repeated in any large measure.

**Ankit Minocha:** Right. And finally, what would be your guidance that you kind of stated maybe two quarters back, what would be your guidance for this year in terms of growth in margins? And do you see any impact, generally, does the strengthening US dollar impact your margins?

**Naozer Dalal:** We continue to, as I've said in the past, we believe that we'll continue to close the year overall in terms of growth in excess of 20% or marginally higher. That is where that continues. There's no change to that. On margins, yes, we'll continue to improve margins as I said in the past too by about 1% to 1.5% year-on-year on an overall basis.

**Ankit Minocha:** And does the strengthening dollar usually impact your margins?

**Naozer Dalal:** It should act as a benefit to us only if the dollar strengthens. So it could be an upside, but I mean, difficult to predict in terms of how that would grow.

**Ankit Minocha:** Right. Thank you.

**Moderator:** Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

**Jyoti Singh:** Yes. Thank you for the opportunity. Sir, just wanted to understand like we have 250 seats for Chennai. And also, we are focusing more on the international side. So like earlier, we did it in Manila. So now we are targeting to expand more on the international side or we are still looking to expand more on the domestic side like Bengaluru and Chennai?

**Naozer Dalal:** No. Thanks. It's good. I'll clarify this. So our international operations have always been delivered out of Chennai and Manila. And a broad brush classification is that we do the back office out of Chennai and we do the voice operations out of Manila. So that's a given. As far as the domestic business is concerned, we will tactically continue to support our existing customers.

To reiterate, we are not in the market selling fresh domestic business. So the site which we have taken in Chennai is not really for the domestic business. It is for strong domestic growth, but more on the international growth which we have got on the back office which we will deliver out of Chennai.

**Jyoti Singh:** Okay. Thank you sir. Sir, just another question on the overall industry side like more of concern on the industry because now this business people expecting it will not grow that much that it was earlier because of a lot of new technology and more competition in the business and industry. So, what are your perspective on overall industry view, if you can give us?

**Naozer Dalal:** Jyoti, I've already answered the previous question on technology. So I don't think I should repeat that. And I have also answered the growth question saying that we'll continue to grow at least at 20%, by the time we sort of come to the end of this financial year. Yes, competition is there. But as I said, we have a pretty niche space in the CXM space. We are a market leader in the EXM space. So we'll continue to sort of manage the competitive pressures and see how we can continue to get that 20% growth.

**Jyoti Singh:** Okay. Thank you sir. So sir just another question on the quarter-on-quarter basis. So like seasonally, we have a strong Q4. So what are expectations from the Q2 and Q3, if you can explain us?

**Kushal Maheshwari:** Quarter-on-quarter guidance if you would like to give?

**Naozer Dalal:** Yes, you're right. Quarter 4 is typically our strongest quarter and I mean I would expect that to happen this year also. But what I would also like to highlight is that we were able to actually hold Q1 revenues this year and we did not really see a dip from Q4. So that's the business growth which we had actually pulled forward into Q1 this year which has also continued into Q2. And therefore, the growth in Q2 looks a little muted. But I mean as we all know, we actually degrow in Q1 and then again start the year. But this year, our Q1 revenues were same as Q4 revenues at about INR129 crores.

**Jyoti Singh:** Okay. Thank you so much sir.

**Moderator:** Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

**Ravi Mehta:** Thanks for the call. Just wanted to check that the headcount in the CXM business has increased by close to 500 seats, whereas the revenues have not grown that much. So what is the usual lag when you add headcounts and to see that traction in revenue? And was this the only reason why the margins of that segment had dropped because you created a bench and it didn't reflect in revenues?

**Naozer Dalal:** Yes, you're spot on. That's primarily the reason. Our typical lead time in the international business which is where the growth is and the higher costs is about 45 days. So the training actually ranges from 45 days which is unpaid training and that's the cost of readiness which I referred to in my earlier call. So we will see some of that coming back in Q3 and Q4. We also did have a bit of a slightly higher attrition in Manila in the last quarter as we grew.

So to that extent, we have to again backfill and retrain. So, there were some bit of element of that, but we have actually sort of we have been able to largely fix that as we go into Q3. But yes, the cost of readiness where the revenue lags the cost which we have to take upfront.

**Ravi Mehta:** Okay. So margins can scale back and the revenue traction will be visible from Q3?

**Naozer Dalal:** Should be, yes, should be.

**Ravi Mehta:** Okay. Thanks.

**Moderator:** Thank you. The next question is from the line of Raghuram N S from Eurindia Ventures. Please go ahead.

**Raghuram N S:** Hello. Thank you for accepting my follow on question. I can see very significant high-profile additions on the Quess GTS side Naozer. Mr. Paresh Vankar who was the Chief Marketing of LTI Mindtree, Mr. Gurmeet Chahal who was with Genpact, very significant additions. How do you see them in terms of how they can impact the kind of growth and the kind of clients that can come into the Alldigi and Digitide family?

**Naozer Dalal:** No, of course, we will bank on their significant wealth of experience and their guidance to see how we can, I mean, continue to grow or do things differently or accelerate growth.

**Raghuram N S:** Okay. But in terms of any clients that they bring, any early indications in terms of what kind of significant overall growth...

**Naozer Dalal:** No. I mean those are things any senior leader would do and we'll continue, as I said to bank on their experience. And, of course, the CMO is just about two weeks into the system. So we'll give him time to settle down and then pick his brains in terms of what we can do differently.

**Raghuram N S:** Okay. Hopefully, next quarter. Okay.

**Moderator:** Thank you. The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

**Kumar Saurabh:** Thanks sir again for the opportunity and my question is on the employee experience management. And I'm new to the company. So my understanding is it's basically a software product business. So correct me if I'm wrong and like the thing I want to know is how much annually we spend on the product enhancement whether you call it R&D cost or product enhancement cost? And also 4 years, 5 years down the line between these two business lines how do you see the revenue -- how do you see the profit mix changing? I think right now we are at around 55-45. Do you see employee experience taking a significant lead or how it will shift over a long period of time?

**Naozer Dalal:** Typically, we don't give long-term guidance, but what I can say is that, yes, I mean, we are looking to grow the EXM business at a couple of percentage points more than the CXM business. So yes, it will be a gradual change in terms of, I mean, how the CXM and EXM proportion pan out in the future. But that said, CXM being a larger ticket size business will continue to play a significant role in terms of our growth going forward also.

**Kumar Saurabh:** Okay. And how much do you spend on...

**Naozer Dalal:** As we are not a product company in that sense. So we are a product plus services company. So on the payroll side, as I said, we have an internal product which runs payroll, but that's an internal product and the customer is pretty agnostic to it. So we do managed payroll services. We also have a HRIS product which is well regarded in the market in terms of its UI/UX and the kind of the customization flexibility it provides. We have invested in a product for the SME space. So I think we are largely done for the investments for the foreseeable future. Yes, of course, we will continue to explore small bolt-on investments as required to ensure that our products remain market relevant.

**Kumar Saurabh:** So sir, how much do we spend on this as a part of revenue on sales and marketing as well as on product enhancement?

**Naozer Dalal:** Difficult for me to give a number top of the mind. But I think it's -- what I'll say is that we continue to make investments as relevant, yes. So whatever can help us grow, whatever can help us keep our competitive position in the market intact, whatever keeps our product market relevant, we'll continue to make those investments in the future also.

**Kumar Saurabh:** Okay. Thank you sir. Best of luck.

**Moderator:** Thank you. As this was the last question for today, I now hand the conference over to the management for closing comments.

**Naozer Dalal:** Yes. Thank you so much for an engaging hour. And I would like to thank all of you for the time that you've given us today. Our strong sales pipeline, laser sharp focus on operational efficiencies and the increasing share of international business makes us remain confident that we'll continue to deliver superior financial and operational performance in the future too. Before we close, I would like to thank each one of you for the support of your company and here's wishing each of you and your family members a Happy Diwali and prosperous New Year.

With this, we would like to close the call and look forward to interacting with all of you again in the future. 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.