February 01, 2024

To	To
Listing Department BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001	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: 539658	Scrip Code: TEAMLEASE

Dear Sir/Ma'am,

Sub: TeamLease Services Limited (TeamLease/Company) - Transcript of Q3'FY24 Earnings Call

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

With reference to the captioned subject and pursuant to Regulation 30 of the SEBI LODR Regulations, 2015, please find enclosed the Transcript of Q3'FY24 Earnings Call hosted on Tuesday, January 30, 2024 at 05:00 P.M. IST. The same is also 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: 2024.02.01 14:48:45 +05'30'

Alaka Chanda
Company Secretary and Compliance Officer
Encl: As above

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"TeamLease Services Limited

Q3 FY '23 Earnings Conference Call"

January 30, 2024

MANAGEMENT: **MR. ASHOK REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TEAMLEASE SERVICES LIMITED**
MR. SUNIL CHEMMANKOTIL – CHIEF EXECUTIVE OFFICER –SPECIALIZED STAFFING – TEAMLEASE SERVICES LIMITED
MR. KARTIK NARAYAN – CHIEF EXECUTIVE OFFICER OF STAFFING – TEAMLEASE SERVICES LIMITED
MS. RAMANI DATHI – CHIEF FINANCIAL OFFICER – TEAMLEASE SERVICES LIMITED
MR. KUNAL – HEAD INVESTOR RELATIONS – TEAMLEASE SERVICES LIMITED

MODERATOR: **MR. MUKUL GARG – MOTILAL OSWAL**

Moderator: Ladies and gentlemen, good day, and welcome to TeamLease Services Limited Q3 FY '24 Results Conference Call hosted by Motilal Oswal Financial Services. 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. Mukul Garg from Motilal Oswal. Thank you, and over to you, sir.

Mukul Garg: Thank you, Ria. Good evening, everyone, and welcome to the Q3 FY '24 Earnings Call of TeamLease. Thank you, TeamLease management for giving us the opportunity to host you today. Today, we have with us Mr. Ashok Reddy, MD, and CEO; Mr. Sunil, CEO, Specialist Staffing; Mr. Kartik Narayan, CEO, Staffing; Ms. Ramani Dathi, CFO, with us.

I'll now hand over the call to the management to start off with their initial commentary. And then after that, we can hand over the floor for Q&A. Mr. Ashok. Over to you now.

Ashok Reddy: Thank you, Mukul. Good evening, and welcome to the call. I think we've maintained another quarter of growth, in line with the element of demand that we are seeing in the market. Overall, we added about 8,000 headcount from an associate perspective, growth in revenue of about 7% and EBITDA of 13%.

We have continued to maintain our core headcount numbers and costs, while working the productivity improvement as a function of associate growth to the core head count cost being flat. In staffing, broadly maintaining the PAPM as a function of growth that is coming in, but with various other initiatives that we have taken on that front.

We continue to lose the NEEM numbers in the degree apprenticeship business. We expect that we will see a comprehensive sunset towards Q1 of next year. But we have been adding numbers in the non-NEEM scheme. And I think we've had the first quarter of a net positive growth in headcount in the DA front in the last quarter. And we believe that, that should sustain as net growth going forward. While this growth is at a lower PAPM, we do look to the entry with clients on this front of apprenticeship and potential to upsell on the learning as we go forward.

On the specialized staffing front. The market headwinds in terms of demand still play out. The translation of the services sector coming for growth is still not on the table, but we are continuing to target the captives and product companies, which have a higher margin demand but lower volume to kind of drive the element of sustainability. We are also continuing to take the call on lower-margin mandates. We continue to maintain the operating cash flows and working capital control at our end. And I think that discipline will continue to play out.

I'll have my colleagues run the details of the specifics, and then we can move into the questions. Sunil?

Sunil Chemmankotil: Thanks, Ashok. Good evening, everyone, and thank you for joining our investor call today. Before we drive into the specifics of our specialized staffing business unit's performance this quarter, I would like to take a moment to discuss a few critical aspects of the IT sector that have a direct bearing on our business.

The IT sector has been experiencing a period of cautious and selective hiring, with a notable decrease in hiring by IT services companies over the past several quarters. Although GCCs, or global capability centers, have seen some hiring, it has not been sufficient to offset the decline in IT services. However, this shift has been beneficial for us, enabling us to increase our market share in the GCC space. At the end of Q3, 66% of our net revenue is now coming from GCCs.

Q3 is typically a weaker quarter for IT hiring, which was further impacted by fewer billable days and the need to manage furloughs. Despite these challenges and the generally weak macroeconomic environment, we have achieved growth quarter-over-quarter and year-over-year in terms of revenue and EBITDA. This growth is largely attributable to our continued focus on cost optimization and capturing a greater wallet share of the available opportunities.

In line with our strategy to improve the quality of our business, we made the decision to transition 650 resources from our low-margin telecom business to general staffing business. This move is not expected to significantly impact our net revenues, as our business teams have been effective in rapidly acquiring some high-margin customers to compensate for these low-margin exits. Additionally, we have secured 4 strategic accounts, which we anticipate will boost our revenue run rate in the near future.

Overall, our revenue has grown by 12% year-over-year and 9% sequentially, driven partly by some onetime incentive payouts and vendor consolidation mandates from our strategic customers. Our EBITDA has increased by 15 percentage year-over-year and 13 percentage sequentially, thanks to the combined effects of this onetime revenue boost and our exit from low-margin business.

While the benefits of exiting low-margin businesses will continue and play out in the long term, it's important to note that onetime benefits are nonrecurring. This strategic shift, along with lower hiring levels, has resulted in a reduction in headcount both year-over-year and sequentially. As we look ahead, we recognize that uncertainties remain in the market and overall hiring is likely to continue with caution.

However, we are beginning to see some positive signs. In this environment, we remain committed to focusing on portfolio correction, sales enhancement, cost optimization and further digitization. Our goal in the short term is to maintain an EBITDA margin between 6.5 percentage to 6.7 percentage, and we can go back to the normal level of 8 to 9 percentage once the demand is back.

Thank you for your continued support and confidence in our execution capabilities.

Kartik Narayan: Yes. Thanks, Sunil. Good evening, everyone. Q3 is a core festive quarter. Hence, during this quarter, a temporary charge occurred in revenue with onetime festive billings. It's also a quarter that, by December, enterprises recalibrate their workforce to align with current demand trends and expectations of growth going into Q4. General staffing has had a net addition of 7,500 associates this quarter. With this, our year-to-date net incremental associate growth is 35,000 and overall net growth on a year-on-year basis is 20%.

We experienced a 28% year-on-year growth in gross revenue and a 9.4% on a sequential basis, reflecting the positive momentum in our business in the market. We saw growth coming in from consumer, telecom, retail, e-commerce, and some green shoots in our manufacturing business. We saw related some established in our BFSI vertical in Q3 as some customers held up on hiring.

Financial services and consumer goods continue to be our top 2 segments in terms of associate base, closely followed by telecom in retail. Our sales apprenticeship 36 new logo sign-ups, primarily in the consumer, retail, and manufacturing segments. At the gross level, we hired around 23,000-odd associates during Q3 through our sources, which is a 21% increase from the same period last year.

On the operational front, initiatives around digitization and process improvements have led to an improvement in FTE to 366 in Q3 versus 355 in Q2, driven by a 3% increase in associate headcount. Efficiency improved, I believe, due to service a large associate base with existing core headcount. We see this trend continuing to play out in Q4, resulting in both faster client servicing and higher operating leverage.

Coupled with anticipated growth, we shall be on track towards further improvement in FTE during Q4 of this financial year. Some of you do recall that we've spoken about initiatives around cross-selling and up-selling into our base. As Ashok mentioned, we are seeing some initials coming through, basis which PAPM has registered a margin improvement. Last quarter, we had informed that was 634, and this is marginally improved to 688.

As we move forward, we see positive signs around hiring in BFSI, consumer, telecom, and the manufacturing vertical. We see increasing signs of enterprises wanting to formalize their extended workforce and move towards more established and compliant players. Looking forward to Q4, we have a healthy pipeline and see emerging demand across most customers, while the challenges in specific sectors persist. We believe the opportunities presented by continued normalization, along with the anticipated capacity to be positive for us.

In summary, we're really excited about the opportunity in front of us led by growth and formalization in the economy. As I've spoken before, we're dedicated to creating a top-notch business with a strong growth and excellent customer management and solid sales strategies. At the same time, they are putting effort into improving our hiring processes. We are starting to see movement from going digital and improving our processes, and we are excited about what this will mean for us down the line.

Thank you, and Ramani?

Ramani Dathi: Thank you, Kartik. Good evening, everyone. EBITDA improvement, as we have indicated earlier, is on a consistent track, led by operating leverage in businesses. We expect strong operating performance from HR services in Q4, driven by EdTech vertical. We have received INR2.5 crores of interest income during the quarter on tax refunds. Total outstanding income tax refund receivable as of 31st December 2023 is INR236 crores.

We are duly receiving tax refund without any disrelevance on applicable claims. During the quarter, we have received INR3.5 crores towards incremental settlement of old investments in ILFS. This receipt has been recorded as an exceptional item in the financial statements. Core employee headcount remained mostly flat for the 9-month period of the financial year 2024. Our cash conversion ratio to EBITDA can be maintained to 80% on an annual basis. Total free cash as of 31st December 2023 is INR250 crores.

Thank you. Mukul, we can open to questions now.

Moderator: Thank you very much. The first question is from the line of Alok Deshpande from Nuvama Institutional Equities.

Alok Deshpande One question, I think margins. We have seen very good growth Q-on-Q as well as year-on-year. But when you look at the EBITDA margins on the general staffing side, at least in percentage terms, that seems to be sort of going down. Any thoughts on that? I mean was there any sort of one-off there? Or -- and how do we see that direction going forward?

Ramani Dathi: Alok, there is no one-off element in this quarter, as we have indicated earlier. So the salary inflation for our associates have been much higher than what we are seeing as inflation in our PAPM. So that's directly leading and diluting our EBITDA margin. However, we have been making consistent efforts to improve the PAPM, both in absolute terms as well as percentage terms. And in absolute EBITDA profits, we are confident of improving it quarter-on-quarter.

Alok Deshpande: Okay. Ramani, have you disclosed PAPM this quarter? Is it flat compared to last quarter? Or how should we look at that?

Ramani Dathi: Yes, we have disclosed it in the investor deck. So there is a INR4 improvement in this quarter. And yes, it's a marginal.

Ashok Reddy: It's 684 to 688.

Alok Deshpande: Okay. So basically, it's more of a mathematical thing where you're looking at that 688 on a much larger salary base of associates, and that's why the can is looking lower, right?

Ramani Dathi: That's right. Yes.

Alok Deshpande: Okay. Understood. And as we sort of go into this quarter? I mean, any sort of color you can give us on -- this year has been fantastic. I mean, in terms of, I mean, almost 35,000 added so far in terms associates. Would we be looking at a similar sort of number next year? Better number? How does the demand environment like going into this calendar year?

Ashok Reddy: Yes. So as of now, Alok, the demand is quite positive. As Kartik had just called out earlier, I think BFSI, consumer and retail has largely driven the volume growth this year. I think as we -- there was a little bit of a tempering towards the end of Q3. But as we look at Q4 and have a view ahead at this point in time, I think from most sectors, the demand looks quite positive with also manufacturing coming into play as we go forward. So I would say that at the back end from the team's focus and drive, it would be to sustain aggressive growth into the future.

Moderator: The next question is from the line of Mukul Garg: from Motilal Oswal.

Mukul Garg: Sunil, just wanted to check, in prepared remarks, you mentioned about some nonrecurring onetime boost during this quarter. What was that in reference to and if you can quantify that as well?

Sunil Chemmankotil: So typically, we get these incentive payouts or some onetime bonus, which is paid to the employees. So it normally doesn't come in Q3, but due to some timing difference this time, it came in Q3. So this was related to that. And that's a onetime activity. It may not happen in the next quarter; it might happen any of these quarters or sometimes it may come in another year. So that's the thing which I called out.

Mukul Garg: And is it possible to quantify the impact of that on our profitability? This quarter, you mentioned that some telecom workforce was shifted to general staffing. Should we expect margins to moderate in the near term or stay in kind of this range going forward?

Sunil Chemmankotil: So just from a profit impact perspective, the onetime would account for about INR1 crore from a bottom-line perspective. The lower margin business that has shifted out will kind of take away some of the top line and the bottom line. So margins should sustain hereafter.

Mukul Garg: Great. So there will be some top line impact because of that in the near term?

Sunil Chemmankotil: Yes.

Mukul Garg: Okay. Understood. The second question was for Kartik. Kartik, I know you guys have been trying to mitigate the impact on profitability from all the changes in the industry, which has happened over the last 2 years. The growth continues to remain fairly strong but we have seen a bit of a continuous erosion in profitability on an ongoing basis. So if you can just share your perspective on how should we look at FY '25 and '26 from a margin perspective.

Is it the case right now that in a slowdown in growth will be the necessary conditions for margins to meaningfully improve for us? Or are there other measures, which can also help us kind of maintain both growth as well as improved profitability?

Ashok Reddy: Yes. So let me -- Mukul, let me just chip in here a little bit, and then I'll give it to Kartik. So one element, obviously, is the fact that the large clients are growing larger, driving growth. And this called out that the large clients have a lower realization PAPM as against the other clients. So I think growth per se is something that will be a key focus how to mitigate the impact on PAPM and the percentage realization is still work in progress.

While we are able to kind of continuously sustain the PAPMs as a percentage realization, it has been coming down. So I think that's the key area that is being worked on as a combination to marry with growth. So looking at the mid segment and the smaller client segment also growing, which kind of have higher realizations but lower volumes.

The back-end focus around cost productivity and those variables. We have seen a considerable improvement on that front. So the teams are in place. There's a little bit of a rejig in structure, that Kartik is looking at, to create more delivery focus at locations, get a higher productivity from some of the hiring teams and so on. So I think those initiatives will continue to play out, wherein we hope that the productivity angle will complement the growth angle leading to some element of margin float around the bottom line.

Kartik Narayan: Yes. Mukul, adding to what Ashok has mentioned. I think there are 2 aspects to the growth which has taken place this year. Obviously, there is demand. But I think more importantly, there is increasing formalization, which is taking place in the economy, and we have benefited from that entire trend. So I think that's one aspect of it.

I think that there are a couple of other aspects as well. Going into next year. We are, obviously, focused around the aspects of hiring attrition and productivity. And I mentioned briefly in my opening about cross-selling and upselling initiatives that we are taking. Early days for us. But to your question on what is it that we can do.

Disparately, obviously, volume is one thing. Our clear mission is that helping large enterprises to be able to address productivity and help them retain their associates better. Our solutions, which we are seeing customers engaging with us on. So I do see some of those kinds of paying back us going into next year.

Ramani Dathi: Also on staffing margins compared to last year, the dilution is also on account of DA business. Because with the withdrawal of NEEM scheme, we lost close to 40,000 headcounts, which are at a much higher margin. So that has impacted at the vertical level. Now the DA has turned net positive on headcount growth and consistently adding numbers. So we expect improvement in margins getting contributed by DA as well.

Mukul Garg: Right. And sorry to push back a bit. I just wanted to kind of rephrase the question. While we have seen very strong growth on our top line, and as you guys mentioned, the higher portion of that is coming from larger clients where, actually, the impact is dilutive on margins. Do you think -- while you have articulated that the focus is on absolute profits, do you think it makes a bit sense to start kind of trying to push back a little -- especially to the larger accounts to either revise the prices, because our productivity continues to go up? Or PMPM continues to go up, but our margin continues to trend downwards?

So is there a thought process from client kind of communication perspective, which we can also start to put into effect, which might be dilutive on growth in the near term but can help us over the longer-term period?

Ashok Reddy: So I mean we totally do that on a running basis, Mukul, about going back to clients for discussion on revision upwards, the element of trying to price back certain elements of a service that customers ask for and everything else.

And I think partly doing all of that is really what is kind of sustaining the PAPM on a weighted average basis. However, some of the large customers, while the PAPMs are low, are still profitable from an account perspective. Yes, absolute profit. And hence, while we do have dialogues with all customers, with certain customers, we are price-takers. But looking at how we can upsell different things to them to try and cover the shortfall on this side.

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

Vikas Ahuja: I have 2 questions. One is, any particular reason for lower addition in staffing headcount? I understand with the last 2 quarters, we have been doing around 6% kind of sequential run rate. And this time, it has come down to 3%. So it was largely on the base or there was any other particular reason?

And the second question is, in the opening remarks we have talked about EBITDA margin for specialized staffing to go back to 8% to 9% once demand is back, so any early indications we are seeing there? I mean any expected timelines where we think the demand for IT staffing is going to come back? And is it also possible to quantify the margins we make on through GCCs or through the other third-party vendors?

Ashok Reddy: So I think on the staffing side, Kartik had called out that Q3 has some element of a seasonality impact towards the end of the quarter. And the element of some go hold on the hiring in the BFSI sector, coupled with the seasonality and a weaker festival season for consumer was the reason for the less than the other quarter's growth that we saw in Q3. As things stand, I think Q4 demand is looking quite upbeat from the market, and we will work to deliver on that front.

On the specialized staffing front. I think as Sunil had called out. The demand is still not the market. I think the demand still stays quite muted. We are kind of balancing that with the demand that we get from GCCs and products side. The services companies are still, at best, replacing attrition but not really bringing new demand to the table.

Ramani Dathi: Yes. In terms of margin, both on IT services and GCCs, overall, the margins that we make are almost on the same line. So there isn't much of a difference. Even though GCCs have a higher rate cut but comes with lower volume, on a net basis, it's the same level of margin of 8% to 9% that we are expecting.

Sunil Chemmankotil: The bills are...

Ashok Reddy: Bill rates are higher.

Sunil Chemmankotil: Bill rates are higher in the GCCs, which effectively lead to higher realization. So that's the...

Vikas Ahuja: Okay, that's helpful. One final clarification in the -- regarding that 1.5% EBITDA we have reported. I mean so that is a clean number, right? And the one-off we have given that comes below that. So -- or that 1.5% includes that one-off itself.

Ramani Dathi: Yes, yes. That INR1 crore onetime billing impact is also part of the EBITDA for specialized staffing business.

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

Amit Chandra: So my first question is on the DA business. So we have seen stability there in terms of the associate additions. So if you can quantify what is the NEEM and the non-NEEM associate count there? And what has been the gross addition in the DA business? And you said that the drop in NEEM headcount will continue for the 1 quarter. So what kind of volume growth we can assume or are you planning on a normalized basis for the DA business?

Also, Ramani mentioned that the drop in the margins is largely due to a drop in the NEEM headcount, which is higher margin. So maybe you can quantify in terms of the margin between the general staffing business. What has been like difference in margins that we have there.

Ashok Reddy: We are now at about 36,000 headcounts in the non-NEEM side, and we have about headcount left in NEEM. If I take last quarter, we added about 1,000 net apprentice growth. We are losing about 1,000 NEEM trainees every month, which is why I called out earlier that, broadly, we expect most of NEEM to exist by Q1 of next year. I think that exit will continue to play out over the next 6 months. And I think the pipeline in the non-NEEM side has been building up where we should be able add numbers, net of the NEEM losses.

On an average, the NEEM billing was about INR1,100 PAPM, and non-NEEM is at about INR450 to INR500. And that is really where we have to bridge the gap from perspective, saying that as we lose the NEEM, we are getting the regular apprenticeship numbers. But how can we upsell on education to them to get a higher realization?

Amit Chandra: Okay. And on the specialized staffing, I know you mentioned that we are seeing some signs of green shoot in terms of the IT hiring coming back. So if you can give us some more color in terms of are we seeing some active conversations in terms of kind of the hiring getting back? Because it has been now slow for almost 5, 6 quarters. So are we expecting that if it comes back, I know it should have a pretty steep recovery there?

Sunil Chemmankotil: In terms of the market, currently, we have not seen a huge uptick in hiring. But the GCC, the number of GCCs are increasing. And as I explained, we also have acquired a lot of GCCs. To that effect, we have some additional mandates to deliver. From the IT services, the idea was that they have not been hiring for the past many quarters, while the attrition continuously happened with them, there is a leaking bucket.

So we are anticipating that there will be a slight intake. Instead of just replacing selectively, they might go for some higher replacements to manage the existing workforce. And also to cater to the new deals which they have been signing up and announcing in their quarterly results. So that was the idea. But if you ask me, is there enough requirement on the table currently? No, not yet. We have not yet reached there. But we are hoping that things will turn out in next 1 or 2 quarters.

Amit Chandra: Okay. And then lastly, on the HR Services business. Obviously, we are seeing some decline there. But you mentioned that we can see some recovery there. So in terms of the breakup that you have given, EdTech and HR Tech seems to be the bulk of the revenue. So what's happening there in terms of EdTech, HR Tech, if you can give some more color how we're seeing it from, say, the next year perspective.

Ramani Dathi: Yes. On EdTech front, we are consistently seeing the 30% year-on-year growth on revenue. And also in terms of margins, we are confident of maintaining 8% to 10% of EBITDA margin within EdTech vertical, including this year. HR Tech is still -- in terms of overall profitability, it's still in investment phase. And we are expecting a 20% kind of growth on top line. And for next year, it can still be a slightly breakeven or marginal profitability.

Moderator: Thank you.]

Ashok Reddy: Mukul, if there are no more questions, we can give the closing remarks.

Mukul Garg: Yes. Actually, you can close the call.

Ashok Reddy: Yes. So if I -- I mean, as we've just been calling out, I think we continue to see demand for the volume growth in staffing and we are working our structures to ensure that we continue the delivery on that front. I think the NEEM reduction in numbers will continue to play out over the coming quarter -- coming 2 quarters.

But our focus on the sales side to the regular apprentices across different organizations, otherwise, should enable net apprentice growth on that side. However, we'll have to look at further upselling the education side for a realization play to continue.

I think on the specialized staffing, a lot of the correction on low volume mandates and acquiring the GCCs will continue to play out, and we should stay flat, at least, as a function of the demand we see as of today. Overall, I think in aggregate, we should expect another quarter of growth as we look ahead, given the current demand outlook that we had.

I think from our perspective, we will continue to focus on our core headcount, our costs, our productivity, and scale will be the key variables that we will welcome. With that, thank you very much.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Ashok Reddy: Thank you.