

January 27, 2023

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
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Dear Sir/Madam,

Sub: Transcript of Q3FY23 Earnings Call of TeamLease Services Limited (TeamLease/Company)

Ref: Regulation 30 of the SEBI Listing Obligations and Disclosure Requirements (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 Q3FY23 Earnings Call hosted on Wednesday, January 25, 2023, 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**

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Company Secretary and Compliance Officer

Encl: As above

“Teamlease Services Limited
Q3 FY '23 Earnings Conference Call”
January 25, 2023



MANAGEMENT: **MR. ASHOK REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TEAMLEASE SERVICES LIMITED**

MS. RITUPARNA CHAKRABORTY – CO-FOUNDER AND EXECUTIVE DIRECTOR TEAMLEASE AND CHIEF EXECUTIVE OFFICER, DEGREE APPRENTICESHIP – TEAMLEASE SERVICES LIMITED

MR. SUNIL – CHIEF EXECUTIVE OFFICER –SPECIALIZED STAFFING – TEAMLEASE SERVICES LIMITED

MS. RAMANI DATHI – CHIEF FINANCIAL OFFICER – TEAMLEASE SERVICES LIMITED

MODERATOR: **MS. ADITI PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the TeamLease Services Limited Q3 FY '23 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the call over to Ms. Aditi Patil from ICICI Securities. Thank you. And over to you, Aditi.

Aditi Patil: Thank you, Zico. Good evening, everyone, and thank you for joining TeamLease earnings call. Thank you, TeamLease management, for giving us the opportunity to host the Q3 FY '23 Earnings Call. We have with us today, Mr. Ashok Reddy, Managing Director and CEO, Ms. Rituparna Chakraborty, Co-Founder and Executive Director TeamLease and CEO, Degree Apprenticeship, Mr. Sunil, CEO, Specialized Staffing, and Ms. Ramani Dathi, CFO. We will start off with the remarks from management, after which we will open the floor for a Q&A session.

I now hand the conference over to Mr. Ashok Reddy. Thank you, and over to you, sir.

Ashok Reddy: Thank you, Aditi. And welcome all of you to the conference call. Just as an earlier update, I think at the group level, our revenue grew 26% on a year-on-year basis and 3% quarter-on-quarter basis. However, we have noticed a much weaker festive demand in Q3 compared to prior years. I think that's kind of accounting for the net growth in general staffing that we've had of only about 3,000 for the quarter.

I think we did add headcounts in the early part of the quarter in October and November, but we've had a much higher attrition and end of festive on-boarding in the December month. And I think if we extend into IT staffing also, we've had a growth in headcount of about 400 for the quarter, but relatively flat from a billing perspective, given the furloughs and lower billing days in quarter 3.

I think for us, the biggest hit has actually come from the Degree Apprentice side, where -- and Ritu will cover that in more detail, but the NEEM program, gazetted program from AICTE, higher education department has been discontinued effective December. As a run-up to that and post the discontinuation, we've had to let go of nearly 20,000 trainees, who are under the training program under NEEM. And even currently, we have further exposure of about 26,000

under NEEM that we are in dialogue with customers for continuation, moving them to other areas and so on.

So overall, I think that kind of puts a pressure on the element of the headcount and the bottom-line contribution as we go forward for the coming quarters. And in HR services, there has been a delay in university billings from Q3 to Q4, which broadly from the commentary, we do seem to believe should get done in Q4. So I think overall, a weaker festive demand in general staffing and headwinds in specialized staffing have impacted our growth. The NEEM is a surprise element with the notification being canceled. And we have started working on alternate placement of apprentices of the 26,000 across other alternate options.

However, given all of that, there will be some pressure on margins for the coming quarters with the soft demand realization pressure NEEM impact. We have taken the necessary actions on core headcount that we had called out in Q2 in rationalizing it in line with the softening of the market. And we do have a reduction of about 200 core headcount, which is about 9% of our headcount in Q3. We do have some further adjustments that will happen in Q4 also, in line with how the market is. And that's something that we will continuously look at as we go forward.

From a staffing perspective, broadly, the other parameters of PAPM, productivity, core employee headcounts and all have been in line with the revenues and the topline. Even the CTCs, the hiring has improved overall in terms of what we deliver to customers. So no major call-outs of huge deviation happening in the staffing business as we look at it at this point other than the softer festive quarter, and we will continue to look at seeing which verticals to focus on for driving growth as we go forward.

Ritu will cover on a little more detail on DA, Sunil, on specialized staffing, and then Ramani overall before we get into the questions.

Rituparna Chakraborty:

Thank you, Ashok. Good evening, everyone. Like, as mentioned, already shared by Ashok, I think the NEEM program has been discontinued with effect December 23, 2022, wherein we have to release 20,000 trainees who are under various short-term training programs. We have exposure of another 26,000 trainees under NEEM program, which shall be migrated and new on-boardings to move in dialogue with the customers to our own, which is a TeamLease apprenticeship quota, the client apprenticeship quota under the Apprenticeship Act, and Degree Apprenticeship program.

PBT for the quarter has remained flat as it is the remained effective end of December. The impact will show up in Q4 numbers. Outside of this, we have maintained a steady momentum in new logo acquisitions, having added 20 new logos taking our YTD account to almost 70. Hiring contribution to growth remain constant. The non-recruiter channel contribution to

overall hiring additions have been around 60%, and the overall conversion has definitely gone up to about 33% as against about 28% last quarter.

However, we are not where we would like us to be, given that the overall volume of open positions have been showing a decline in trend on month-on-month basis and is much below our expectations. Just to update you a little more on the recent surprise development. NEEM, which is the National Employability Enhancement Mission, it's a gazetted notification scheme under the Ministry of Education run by AICTE. It has been, in spite of there being a renewal beginning of December, suddenly closed by way of a notification circulated on Jan 3, putting almost 2 large active apprentices future livelihood and learning in precarious position.

Representation has been made by us with the AICTE Ministry of Education to offer clarity on the future of the existing apprentices already enrolled, which from the notification is completely unclear, causing a lot of anxiety to both, organizations as well as apprentices. We have, in addition, initiated legal deliberations by way of filing a stay order to ensure the existing lot of apprentices can be retained. We are testing the impact of this new development closely and shall duly keep you informed. Thank you so very much. Sunil, over to you.

Sunil Chemmankotil:

Thanks, Ritu. Good evening, everyone. Q3 is normally a seasonally weak quarter for specialized staffing. Hiring in IT sector is still not recovered while we were able to benefit from the hiring of tech and non-tech. However, the volumes are not comparable at this point of time. Most of our IT customers have either stopped or slowed down on hiring with focus shifting towards improving the utilization sector. Unfortunately, the cautious approach of our customers also percolated to staff augmentation, which ideally should not have been the case, as in this market, staff augmentation is the best option.

Our headcount grew 2 percentage quarter-on-quarter basis and is broadly flattish when compared to the same period of the last fiscal year. The revenue grew 4 percentage year-on-year basis, and quarter-on-quarter basis, it's broadly flat. Although we have seen marginal headcount growth, the revenue stayed flat on account of leaves and furloughs in Q3, impacting the profits for this quarter.

We continue to focus on client acquisition and were able to bag 43 new logos YTD, including 18 strategic client wins. The client wins are mix of tech and non-tech, keeping in view our long-term strategy to build a balanced portfolio. With uncertain macroeconomic trends, geopolitical turmoil, inflation and raising interest rate, we are uncertain on the compounding effect it will have on our clients hiring strategy. We shall continue to focus on client acquisition, better fulfillment ratio and improve operational efficiency. We are confident of bettering our Q4 numbers compared to Q3. However, for the full year, it will still remain flattish. Thank you.

Ramani Dathi:

Thank you, Sunil. Good evening, all. We had about 3,000 headcount growth in staffing business in Q3, excluding the NEEM closure exists of 20,000 as of 31, December. EBITDA and operating margins have been flat on a quarter-on-quarter basis. However, there is a dip year-on-year because of reduced contribution from IT staffing and delay in the Edtech business compared to Q3 of last year. The quarter-on-quarter drop in PBT is on account of a few non-recurring write-backs and onetime hiring revenues. Unallocated EBITDA is now brought back to the regular quarterly run rate levels.

So given the lower-than-expected closure of Q3 run rate in staffing, NEEM closure in BA business and overall external demand environment, we are projecting Q4 profitability to be flat or lower than Q3. Accordingly, we are bringing down our internal costs and core headcounts for the next few quarters.

In terms of income tax refunds, we have completed assessments up to financial year 2021, and the refunds can be credited over the next few months. So there are no new queries that are received on 80JAA front. Only the previous year FY 2022 assessment is pending as of now with no other backlogs. Our current cash position is INR 270 crores. And by end of the year, including tax refunds, we expect the numbers to go up to INR 350 crores. We currently do not have any active M&A discussions in the pipeline. Thank you.

Ashok Reddy:

Aditi, you can take the questions.

Moderator:

Our first question is from the line of Vidit Shah with IIFL Securities.

Vidit Shah:

Just my first question was on this NEEM program, where 20K or 20,000 associates have been let gone of and 26,000 have further exposure. Could you just -- I mean, it's quite basic. But just how this works in a sense? Why not 46 have been let gone of? I mean, if the program has been discontinued, shouldn't all associates be let go of immediately?

Rituparna Chakraborty:

So the thing is that the ones that have been let go off have been on account of clients, certain clients choosing to kind of off for them, and they have been because of the unrest caused some attrition from the trainee side as well, but largely on account of certain organization taking that call. However, the balance, essentially, the organizations are, at the moment, choosing to retain until and unless there is ample clarity provided from the AICTE Ministry of Education on -- because of the notification as such, it can be -- it need not necessarily be interpreted as the ones who are existing. However, it's a gray area.

However, we are actively talking to these organizations because they have a clear intent to continue with these apprentices to move them or shift them to alternates around the Apprenticeship Act, which is using their own quota of apprenticeship, using our quota of apprenticeship and also to degree apprenticeship wherever we can.

So I think -- and of course, this is something which will start becoming clearer over the next month or next two, three months. Meanwhile, from our side, we have put all our weight behind getting legal stay order in place, filing for one. And we've also made a very active, aggressive representations with the AICTE that at least -- because this is -- this means the future likelihood of are not the start trainees, overall 200,000 apprentices across India and they are stipend and as well as they're learning, to be honest.

Ashok Reddy:

So I think Vidit, extension of that is that ideally, a scheme that's in place could have a glide path to an exit, which is to say that people who have already been on-boarded as trainees should effectively finish that training period or kind of exit as they do as a part of natural attrition. And the notification could be to the effect that you don't onboard anybody new and kind of keep feeding that front.

So I think while some organizations have taken it as a closure and wanted to kind of exit, some do want to give the benefit of continuance to the trainees. And that's really where representations have been made to AICTE about an acknowledgment that no new on-boardings of trainees will happen under the scheme, but to give continuity for those who have already been on-boarded till the training period completes.

Similarly, as Ritu was mentioning, we are also exploring legal options for say to create continuity for these people. So I think the continuance of the 26,000 is more customer choice at this point in time, where there is dialogue to see whether they will continue, whether we can migrate them to alternate options and so on.

Vidit Shah:

So just to clarify, we are still being paid INR 400 to INR 600 per trainee per month by the existing customers for the ones that are not let go of?

Rituparna Chakraborty:

Yes.

Vidit Shah:

And what's the average training period in the sense, if this program were to be discontinued and the existing ones were allowed to be complete the training, after what period would all these associates will let gone of?

Ashok Reddy:

It's normally a three-year training program that is there for the NEEM aspect. By natural element of completion, about 9,000 of the 26,000 will complete in the next year. So in the next financial year, about 9,000 will complete. Over and above that, we also have to factor some natural attrition that does happen on this front.

Vidit Shah:

Also, could you just shed some light on the other HR services. I mean, a few quarters back, we had guided to around 8% to 9% of EBITDA margin. Now I understand some of the billing has been delayed. So would we catch up to the extent and achieve our margin target? Or is this expected to be impacted by delayed billing?

- Ashok Reddy:** So I don't think the full year should get impacted at this point in time Vidit, because the indication from the counterparty entities of universities and institutions is that the billing would happen in Q4 because services have been delivered. And from that perspective, I think the belief that the Q4 billings should happen with no further delay at this point in time and should come back to the yearly 8% that we had indicated.
- Vidit Shah:** And just lastly, if I could bother you for a data point. Could you disclose the cash flows for 3Q and for the year-to-date for the company or the operating cash flows?
- Rituparna Chakraborty:** So currently, we are at 70% conversion of EBITDA on operating cash flow. So that stands for full year nine-months as well as for the quarter ended.
- Ashok Reddy:** And over and above that, given two years assessment is done, we are expecting that money to come in over the next three to four months.
- Rituparna Chakraborty:** So we already received assessment orders for FY '20 and FY '19. So between the two years, we are expecting a refund of about INR 80 crores. So in the next few months, so that will be added to our cash balance.
- Moderator:** Our next question is from the line of Soumitra Chatterjee with Aventus Spark.
- Soumitra Chatterjee:** Ashok, just wanted to check on this decision of this February 3rd Board meeting to proceed with buyback. Why are we not contemplating increasing the dividend payout? That is one. And second question to Ramani is on the EdTech side. What is the impact of -- in third quarter, the revenue and EBITDA that you have lost because of you were unable to bill?
- Ashok Reddy:** Yes. So just on the February 3rd meeting, I think the Board wanted to deliberate. No decision taken yet, around the fact of our current cash reserves and the refund that is happening or expected to happen for the two assessment years. And our M&A pipeline has depleted a little bit. We don't have as many active dialogues as we were in the past having given early due diligence findings and also the element of counterparty issues and so on. So while we do have some dialogue going on, the pipeline for inorganic is not very large. So I think from that perspective, the Board wanted to deliberate on the capital allocation with the fact that we would have in excess of about INR 300-odd crores by the end of the year as to what to do as a next step?
- So I think, I mean we just couldn't complete that dialogue, have initiated it, and we'll be taking it up at the Feb 3rd meeting.
- Rituparna Chakraborty:** So Soumitra, EdTech billing was about INR 3 crores in revenue is what got delayed to Q4. So the same INR 3 crores will be the impact on EBITDA level as well because all the related costs have already been taken into consideration.

- Soumitra Chatterjee:** And in fourth quarter, you would be billing including this INR 3 crores, which has been lost in this quarter. So regular billing plus...
- Ashok Reddy:** Over and above their regular Q4 billing, this would be additional.
- Rituparna Chakraborty:** So that's how we are saying that on a full year basis, we will get to 7%, 8% EBITDA margin on HR services.
- Soumitra Chatterjee:** And one more question to Ritu. What would be the annual impact of assuming that the NETAP business is discontinued and from FY '24, there will be no more NETAP. What would be the annual impact on the EBITDA?
- Ashok Reddy:** It would be about INR 10 crores. So from a topline perspective, I mean, from a net revenue perspective, it would be about INR 22 crores. And from an EBITDA perspective, it would be around INR 10 crores to INR 11 crores.
- Soumitra Chatterjee:** And lastly, on these unallowable expenses, historically, it used to be about INR 6 crores to INR 7 crores. Do we see the INR 10 crores number on a quarterly basis reaching there, or it will remain at the current levels?
- Rituparna Chakraborty:** So it can remain at the current INR 10 crores per quarter under and with no other costs increasing for next year, actually, we believe plus/minus we can maintain the run rate.
- Moderator:** Our next question is from the line of Krunal Shah with ENAM Investments.
- Krunal Shah:** My first question is on general staffing. In terms of sectors, can you spell out into which we're seeing some traction for general staffing in terms of new clients? And where are we seeing a slowdown?
- Ashok Reddy:** Yes. So I think, like I said, the festive element of a volume, we did not see kind of across the board, it was quite muted. But overall, if we look at it for the quarter and for the nine-months, BFSI and consumer have been growing. Where we have seen an element of actually negative is in what we call emerging, which is the element of FinTech, EdTech and other new sectors that play out on volumes for us. And some of the e-commerce has also been relatively soft.
- I think industrial has been flattish, hasn't been growing at the rate that we would have expected, and telecom has been flattish. So I would say, two verticals have been positive, two have been flattish and two have been on the negative overall. But typically, consumer and BFSI are where we normally get an element of our festive volume kicker, which has been more muted this year.

Krunal Shah: So in terms of the headcount growth, the guidance that used to maintained of 20%. Do we still see it to be possible in FY '24?

Ashok Reddy: So we used to normally have a 14%, 15% associate growth. I think, overall, this time, we would have slightly lower than that. And also, I mean, IT has been impacted. And the DA impact has been quite substantial on account of the notification. So while purely in staffing, I think we have had and will have the associate growth. We are impacted from the other two verticals. So overall, I don't think we will be at that. So at a revenue level, we will still end up with about a 20%-plus growth. The associate growth will be a little more muted.

Krunal Shah: I was talking more about FY '24, the year afterwards.

Ashok Reddy: So I mean, early to call that out at this point, Krunal, primarily from the perspective that in specialized staffing, IT is still quite uncertain about how the future is holding out. So like Sunil had called out earlier, we have managed to keep it flat for the year. But normally, December is when most of the companies had -- do their internal planning and kind of come back with their outlook for the coming year. We still haven't heard from the companies around their outlook for the coming years.

So I think to that extent, in specialized staffing, we aren't very sure how things are going to play out. Though in some companies, we are getting feedback about some vendor consolidations to happen and so on. From a DA perspective, clearly, the 26,000 could be a potential risk, which we will try and mitigate by conversion into other avenues of on-boarding that we could do and also have to drive the natural growth that comes about.

I think in staffing, some of the sectors, we are getting positive feedback around demand that they are having and potential open position pipeline that they are giving to us. But I wouldn't yet say that it is back to across sectors and across companies, a very aggressive open position situation at this point in time.

So I think as a vacant watch, we will have to see how the macros play out for us to be more clear about the associate growth for next year. But clearly, what we are doing as against for the current year, whereas, a run-up from last year, we expected the demand to be very high and had made large investments in our core teams for delivery for customers. This year, we are taking the reverse approach of saying let us rationalize our headcounts, let's reduce the cost, and only on the back of clear demand coming in, we will start adding back the headcount.

Rituparna Chakraborty: So just to add on the associate headcount growth, Krunal, last year, FY '22, we had 22% growth. And so Q1, we had 12,000. So we thought we can sustain the 20% growth in headcount this year as well. But Q3 is a big surprise because we usually have the highest

addition in Q3 in a year because of the festive season, which did reflect. So that would bring down the associate headcount growth on a year basis to maybe 14%, 15% kind of level.

Krunal Shah: So also this INR 10 crores, INR 11 crores hit that you said on NETAP if this program is withdrawn, that will only be for the NEEM program, right? Because we have certain additional headcount in NETAP?

Ashok Reddy: Yes. So we have a total headcount as of now of about 59,000 of which 26,000 are in NEEM and the other headcount would continue.

Krunal Shah: And so just help me explain. I'm actually not aware. How is the degree apprenticeship program different from NEEM? How can you transfer from one to the other?

Rituparna Chakraborty: So the thing is, the degree of apprenticeship program, essentially, the one big advantage is -- will be under the Apprenticeship Act. But most importantly, I think this allows for there being a degree linkage essentially would be apprenticeship program, which means the attractiveness of this particular option from our candidate perspective, the long-term gains for the organization from this program definitely is there. That's essentially the outside view of the customer benefit view of it.

The more important thing is that this allows organizations to have a apprenticeship for a longer duration, which is three years as against the NAPS or the Apprenticeship Act Program, which kind of mandates or restrict it to one year. So in case of NEEM, of course, there was a flexibility of having people for three years. However, given in the absence of NEEM today, the degree apprenticeship definitely stands out as a very attractive proposition for customers.

Ashok Reddy: So I think just to add on to that, Krunal, it's a layer on top where there is -- historically, most of the apprentice training program was certificate driven for a shorter term period. But our belief is that at the profile of candidates that are coming in for learning on the job, creating a corridor effect for a degree helps from a retention perspective and also from a learning-outcome perspective. So I think its longer engagement, coupled with the aspect that the signaling value of a degree is always better than that of a certificate program.

Rituparna Chakraborty: And just one more thing I'd like to add. This degree essentially is -- you just see an NCVT approved curricular and hence, the apprentices -- and its credit based, which means that this is something which holds good for them to have mobility in their learning process. So essentially starts with the certificate program, a diploma program and associate degree and can be scaled up to a degree program. So it's a lot more fungible, flexible even from the candidate perspective.

Krunal Shah: And also on the financial benefit through to the clients. So 1 was the tax advantage. So that remains the same in both cases?

- Ashok Reddy:** The set-off against CSR expense will not be there.
- Rituparna Chakraborty:** So the thing is that the financial benefit is twofold from the apprenticeship program. One was that, does it qualify for setoff against the CSR criteria? So this does, in many ways, actually qualifies another skill development category for organization. So some organizations do take a benefit out of it.
- But more importantly, there is a subsidy which comes to -- from the government side for every trainee up to one year. Earlier, it used to be directly coming into organization as a reimbursement. But now that has moved to the trainee directly getting up to INR 1,500 per month. However, as you can see with schemes and benefits and -- is there today, but we don't know really the continuity of it in future.
- Krunal Shah:** And one last question. In terms of the core headcount for us, where would we stand right now?
- Ashok Reddy:** The current number is about 2,200.
- Krunal Shah:** And the markup for Q3 in general staffing?
- Ashok Reddy:** It's kind of flattish at around 695.
- Moderator:** Our next question is from the line of Aasim Bharde with DAM Capital Advisors Limited.
- Aasim Bharde:** So just one question was on the specialized staffing margins. You are at sub-7% in Q3. Adjusting for the lower billable hours, etcetera, is it still a 9%-odd EBITDA margin in Q3?
- Sunil Chemmankotil:** So we always maintained around between 8 to 9 percentage. So we should be able to maintain a similar margin.
- Ashok Reddy:** I mean at the moment in time, given his Q4 outlook, we should get back to that 8% to 9%.
- Aasim Bharde:** So Q4, we should be back to 8% to 9%? Secondly, on the general staffing bit, I think you answered it partly in the previous participant's question, but just wanted to get a sense. And for the year on general staffing headcount growth, that should still be around 13% to 14%, for FY '23?
- Rituparna Chakraborty:** That's right, Aasim. It should be around 14% on a full year basis. And in terms of the revenue growth, we would be at 20%, 21% growth.
- Ashok Reddy:** Inflation also factored and prior period.

- Aasim Bharde:** And can you just – just one clarification. I think in Q2, we had the skills business bloating other income and unallocated expenses. Is that not there in Q3?
- Rituparna Chakraborty:** No. Skills business is still there in Q3 as well. However, we don't have any new provisions hitting on account of Skills business.
- Aasim Bharde:** But you had shifted the reporting from revenue to other income. Because it was in sunset mode or something. That's what I was expecting?
- Rituparna Chakraborty:** Correct. So the income levels have remained flattish, Aasim, only different between Q2 to Q3. In Q2, there is a provision that we made on Skills business on account of delayed collections. So we don't have any incremental provision made under unallocated.
- Moderator:** Our next question is from the line of Amit Chandra with HDFC Securities.
- Amit Chandra:** So my question is related to the closure of the NEEM program. So what was the rationale behind on closing the program and was it expected or we were expecting some kind of closes to happen or it was a surprise for us also? And also in terms of the revenue impact, as the closures happened at the end of December, so the impact on the headcount that we are seeing. But have you seen the impact, the full impact will come in the next quarter?
- Rituparna Chakraborty:** Yes.
- Ashok Reddy:** Yes. The full impact will come in the next quarter, Amit, from that perspective. But I think just to add, I mean, all the headcount didn't -- so I want to answer the prior question. While the notification to end was kind of in the coming, though it was -- when it did come, it was a surprise and to the nature of how it was worded, it was a surprise.
- I think the rationale or the approach that the government was taking is that there have been certain -- it was kind of throw the baby out with the bathwater kind of a situation where some of the authorized vendors were misusing the provisions of the NEEM gazetted scheme, and they wanted to correct that.
- But instead of so-called correcting it, they have ended it. So there have been -- the government has been in talks with the vendor partners who are authorized to roll the scheme to create corrective action and so on. We believe that it would be better enforcement that would get driven, not an ending of the scheme per se.
- Amit Chandra:** And in terms of the margins, we have been saying that the general staffing margins are at bottom for the last few quarters, but you are still seeing some of the other headwind that is coming up every quarter. So how we see the margins from here on the staffing margins are also yet to recover and the margins for the specialized staffing is also coming down. So how

do you see the margin for our FY '24? Is it going to be under pressure? Or can you see some recovery there?

Ashok Reddy:

So I think there will be at least two, three quarters of softening on the margin front as the translation of the volumes' going down and the aspect of seasonality that does exist in the HR services front, where typically Q3, Q4 is large for them, while this Q3 has been not so high. Like Ramani had called out, it has been moved to Q4. So there'll be a strong Q4, but they opened with a very weak Q1 as always. Specialized Staffing also has kind of been flat, which is the other driver to margin improvement. So kind of outlook on growth coming back in there is going to be key.

I think general staffing aspect of margin pressure, given that 75% of our billing is on a fixed markup model has been under pressure at a percentage level given the wage escalations that kind of happened last year and probably, to some extent, will happen next year. But the variables of productivity and all of that have been playing out at that end.

Like I called out a little earlier on that front, Amit, I think in this financial year, we made a conscious call on the tailwinds of last year's growth and client outlooks to add a lot of headcount and cost structure. Going into the coming year, we will hold all of that constant to the -- other than revisions, annual revision that would happen in Q1, to effectively back ending costs and hirings to actual demand growth that comes in from customers. So I think, I take your point, some surprise or the other.

So the next two, three quarters, we do expect it to be softer. But there on, I think if business sustains at the rate that even current year it has been, we should be able to recover on the margins front.

Moderator:

Our next question is from the line of Nitin Padmanabhan, an Investor.

Nitin Padmanabhan:

Just wanted your thoughts on the -- how the open positions look, both in specialized staffing and general staffing? I think in the last quarter on specialized staffing, you mentioned that the open positions are down 70%. So how should we sort of think about this, how is it at the current point in time? And how should we think about this on a going-forward basis? The second question was on the margins. Well, you mentioned that margins will remain soft. Are you -- next quarter, we should see a bounce back in other HR services margins and specialized staffing as well? So are you suggesting that margins will remain soft despite that, or are you speaking about next year? Those are the two questions.

Ashok Reddy:

So, sorry, I'll just answer the second question before Sunil gets into the first one. I think while the seasonality element, I mean, not the furlough and lower billable days of Q3 will go away. There will be a marginal bounce back of that 1% in specialized staffing margins. The aspect of

the HR services will bounce back with the backlog of the revenues that didn't happen in Q3 happening in Q4.

The NEEM impact is really what will be large from a perspective for the full quarter. And I think that is really where we are expecting a softness rather than anything else. I think broadly, in general staffing also at this point in time, in addressing the first part of the question, there is demand of open positions that is with us across some of the sectors.

I wouldn't say it's across all sectors, but at least three, four sectors do have active open positions with us with an outlook of that they will be looking at growth in Q4. So I think we're still looking at a positive number coming into play for staffing in Q4 and continuance on that. From a specialized staffing perspective, Sunil will...

Sunil Chemmankotil: Yes. So Q3 is normally a seasonally weak quarter for hiring. So the demands were pretty low. However, if you look at Q2, Q3, both the quarters, the fulfillments from our point of view has been around the 60, 65 percentage of the demand what we used to get earlier. So normally, by this period, we get to know how the Q4 is going to be. But unfortunately, as of now, we don't have clarity. So we are hoping that some hirings might pick up in the next quarter, and that will help us to get a guide for towards next year.

Ashok Reddy: But I think underlying of that, Nitin, effectively, is that at this point in time, open positions are still 70%, 75% down from what they used to be. December, which is where typically IT company planning happens and they come back with an outlook and larger open positions, hasn't yet happened. We are hopeful. Having said that, we have also, at the back end, adjusted headcounts in the specialized staffing business in a large way and would kind of rebuild basis, the aspect of demand coming back.

Nitin Padmanabhan: And lastly, how much would be the overall headwind on revenue and margin from the NEEM impact for the next -- for what we already know for next quarter?

Ashok Reddy: Would have to work that in completely, Nitin. Not yet factored in because we've been actually working on the overall base and how to protect it and how to reassign it and so on. So I wouldn't have a number immediately, but could come back.

Moderator: As there no further questions...

Ashok Reddy: Actually, there no further questions, maybe there was a little time between the announcing of the results and people absorbing of the numbers. I could just conclude to say that we did have a surprise from the NEEM perspective. We are trying to mitigate as much as possible from the other 26,000 trainees that are still there. There has been an element of a seasonality push from the HR services. And there is still uncertainty from the specialized staffing, demand perspective. I think we do have some softness across the businesses that is playing out into

margins and the growth per se. But I think our preparation this year will be very different from how we entered last financial year.

And from that perspective, like I called out, we would have two, three quarters of softness in margins. With the glide path of the business trajectory, we should be able to start getting back to improvement on the margins front as we go forward. I think we are still -- there is demand coming in from some of the verticals for staffing, and we continue to deliver on that front. As of now, there are no broader headwind views for the general staffing business other than the fact that the festive season was clearly lower than anything that we have seen in the past. So we will continue to stay prudent around the cost structure.

We will rebuild teams and costs in line with the demand and the macro situation coming to play out on that front. And I think we will effectively look at the element of capital allocation in line with the market and the utilization that we have into the future. With that, thank you very much.

Rituparna Chakraborty: Thank you.

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