"Quess Corp
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Moderator: Ladies and gentlemen, good day and welcome to the Quess Corp Q4 FY2018 Results Conference Call hosted by Axis Capital 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Snigdha Sharma from Axis Capital. Thank you and over to you Madam!

Snigdha Sharma: Hello, everyone, and thanks for standing by. It is a pleasure to host the management of Quess Corp. today. To take us through the results and to answer your questions, we have Mr. Ajit Isaac, who is the Chairman and MD of Quess; Mr. Subrata Nag, Group CEO and Executive Director; and Mr. Manoj Jain, the CFO.

For starting remarks, I hand over the call to Mr. Sangram Mallick from the Investor Relations team of Quess. Over to you, Sangram!

Sangram Keshari M: Good afternoon everyone. Please note that the results and the press release have been updated on our website. I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with the uncertainties and the risks that we face. These uncertainties and the risks are included, but not limited, to what have already been mentioned in the prospectus filed with SEBI. With that said, I would now turnover the call to Mr. Ajit Isaac. Over to you Sir!

Ajit Isaac: Good afternoon ladies and gentlemen. This is the 41st consecutive quarter of growth at Quess, and it has been a terrific year for us, where we saw significant momentum in our group's expansion initiatives, acquiring and managing new business and improving operational efficiencies.

I am happy to share that Quess is now a company in excess of $1 billion of revenue based on the revenue run rate of the last quarter. And we have grown our business with compounded annual growth rate of 44% over the last 5 years.

In the last one-year, we also emerged as one of the largest private employers in India, with employee strength of over 261,000 employed with Quess.

While delivering these results for the company, we've also been able to maintain our guiding principles of operating with optimum leverage, an asset-light model and prudent capital allocation system.

Against the headwinds in the year, at an overall level, our revenues have increased by 43% and EBITDA level 49% to Rs.354 Crores. At a specific business level, I would like to point out one business that performed remarkably in the last year, our People Services business. Quess has continued to lead the staffing sector in India with a total headcount of about 157,000 people in our General Staffing business and about another 15,000 people in our professional staffing space. It is the first staffing company which has crossed the headcount of 150,000 in the General Staffing space with industrial leading margins. Recently, we have also launched our NEEM Program, which is a National Employability Enhancement Mission, linked to the apprenticeship program in India, and we believe this will significantly add numbers for us in the future.

Last year, Quess has also completed five acquisitions: 51% of Conneqt Business Solutions, formerly known as Tata Business Support Solutions which gave us an entry into the promising area of Customer Lifecycle Management; acquisition of about 70% stake at Vedang Cellular, which gave us an entry into the active infrastructure space in the telecom segment; the acquisition of Monster India and its business in Southeast Asia and Middle East, gives us possibly a high-value asset to the future; full acquisition of QDigi Services, which gave us an entry into the mobile and consumer durable break-fix business; and lastly, a 90% stake acquired in Greenpeace Landscapes, which gave us an entry into the landscaping sector.

At this point, I will also bring out the contribution of our senior leadership team, very dedicated people, long-term with us. And I am deeply thankful to them for their contribution for the last year's results and for the momentum in growth that we've now achieved.

I am joined by my colleagues, Subrata Nag, our Group CEO; Manoj Jain, our Group CFO; and our Investor Relations team. And we are now ready to start taking questions about our group, our results and our way forward. I look forward to the questions that you will raise, and we will answer them to the best of our ability.

Over to you, ladies and gentlemen.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Good evening gentlemen. Thanks for taking my question. My first question is regarding monster. I guess we consolidate the business by around two months in this quarter and when I go through your segment results and try to annualize the loss run rate in Internet business, so almost around 8% of your annual EBIT, so my question is what is the compelling value proposition that you have seen in this acquisition? I understand that it figures around 32% of revenue from IT staffing and monster can actually add to your sourcing capabilities here, but you could have taken a safer route and gone for subscriptions to some data bases like let us say Naukri where I guess the subscription per year starts from something as low as Rs.1.5 Crores to Rs.2 Crores per annum? Where I am coming from is Internet business especially when networking comes into play the winner takes it all? It is highly unlikely that the second guy or third guy will be able to survive in the system for long, so we have not done any such businesses in the past nor does it go with the stated objective of becoming the one stop shop for all the back office business needs of the industry, so when there are so many other options available out there I am just wondering why we bought a loss making proposition that to paying almost Rs.100 Crores and is there any turnaround plan in plan for this business where we can think of arresting the losses or perhaps making profits going forward? Lastly in terms of acquisitions how are we going to go forward? Will we be very strategic in terms of buying certain specific categories of assets or the opportunistic in terms of buying whatever we may perceive as value place or turnaround place?

Ajit Isaac: Thank you, Sudheer, for a rather detailed question. There are a few dimensions of answer to that. The first is that we have not purchased this because we wanted to acquire a database of candidates that will fulfill the sourcing requirements of our IT business. Our own internal database across the years that have been built out is in excess of a couple of million people in the IT space. So we cover almost every alternate IT candidate in India in a fairly substantial manner. The main strategic intent in acquiring Monster was to acquire a platform with which we could reach out to so many candidates and possibly go on to build a workflow management tool through this. So we should be able to hire highly desired candidates, hire them and deploy them through this platform. I think it is work in development. It is too early. But our early signs have been very promising. We have a great team, and we have supplemented that with some new hires. We are also developing the product in a different sort of way from what the market has, all of which we cannot discuss right now in a conference call. But suffice it to say that we have a plan that is slightly differentiated in terms of product proposition, from conventional job forces available today and something that we think will have immense value for shareholders in the future. The value that we paid for this is I think reasonable in our opinion. We think that the costs of having to build something like this, acquire customers and develop certain large footprint would have been far more substantial, and we had to do it on an in-house basis. The value that we have paid is about less than half times sales, and we think that the value that we can create from the new products that we bring to the market will be far in excess of what we paid for it. So that is as much as what Monster is about. In terms of future acquisitions, we are very entrepreneurial in the way we have gone about building our business. All of our acquisitions may not compellingly reflect a core competency type of approach in a strategic direction that it'll take. For example, our acquisition to buy HCL's aftermarket break-kit business of phones is very different from the staffing business that we do. But it compellingly fits into our customer life cycle business that we have initiated through our acquisition of Tata Business Support Solutions. So as we grow, you will find some of them are not as straight as it looks, but very valued in terms of what it creates for shareholders here. And we will continue to go down the road of identifying such assets, which fit into our business, where we can back with management teams, and more than anything, where our capital acquisition philosophy does not get diluted. I hope it has been a reasonable response.

Subrata Nag: Sudheer, just one thing I just would like to add here. Going to annualize the loss, that Rs.4 Crores this year, because after we acquired, there are a lot of critical activities, what we did. So if you annualize the loss, it will not be the loss what we are projecting this year. I think this year, we have already taken several measures for reduction of costs and other things, so if I exclude whatever additional marketing activities we may have to undertake, on the operating ongoing business, we will most probably breakeven this year or make a very small loss. So do not annualize anything that would be impacting our overall profitability this year, okay?

Sudheer Guntupalli: Fair enough and just one last question despite showing very strong growth in headcount and revenue in P&S segment, the EBIT margins in this quarter seems to have actually contracted 40 basis points on a YOY basis, so any specific reason is there some kind of one off or something here?

Subrata Nag: One of the reasons that Monster lost definitely I think that is the Rs.4 Crores that also came in this quarter. That has an impact and also we have these acquisitions what we have done in the previous year, the depreciation and amortization of the value of the contract also had some impact in the financials and in case of industrial also I think we are a little short from our expectations. All this actually coupled to that reduction, but I am sure that this Q1 onwards we will see much more robust results coming forward.

Sudheer Guntupalli: No Sir I am asking about people and services segment, the segmental EBIT margin has come down from 4.9% as per your March 2017 restated numbers to 4.5% in March 2018, so here is there some, one off or something that I am asking about?

Ajit Isaac: So I think the P&S business is a combination of our skill development and our General Staffing business.

Subrata Nag: In skilling, there is one new project to what we are doing. There is a PMKK projects, okay. So PMKK projects basically started in the Q2 and the second half. So some of the mobilization costs that has gone into the Q3 and Q4 was the reason. So most of the effects and the positive effects, will be coming when the training will be going into full force, that will be coming in the H1 actually, you will see, it will come back to the original or maybe go up to what it was there previously. So it is basically a little bit of operating investment, what you do to setup the centers and other things. And sometimes, you will get the people previously on board before you are starting the program. So that is basically a part of the reason, the way you operate in.

Sudheer Guntupalli: That is very helpful and all the best for the next year. Thank you so much.

Moderator: Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities Ltd. Please go ahead.

Sagar Lele: Thanks for the opportunity. Just one question, the people and services business has been seeing a very strong growth? It was at a 6% YOY growth the same time last year and that has picked up to 38%? Could you just talk a little about what components are really driving that growth here and probably is it just industry factors lead by GST or is it some amount of market share gain just some color in terms of the key drivers?

Subrata Nag: There are a couple of drivers, Sagar. The first driver is the new logos, what we have been acquiring. Last year, we acquired almost 19 new logos. So that is the one thing actually helping us, expanding our reach. And another thing, what I think in the previous year, I think we have shown here that we were a little weak in the BFSI sector, a year or, say, 18 months back. Then we took a conscious call that we have to be strong in the BFSI sector and we started focusing on that. And last year, we acquired one of the largest contracts actually in the Indian staffing industry; we got one contract of 11000 people, the largest in staffing, a big company in India. So that also helped us increase the volume. And if you have seen our staffing business, every year, we are adding more people than the previous year. If you track our 10-year history, last year, we added almost 42000 people, a year before, 32000 and then before, I think 20000 people. So with the strength for our coverage, we have almost 300-plus customers. The customers are increasing. And we have covered almost a lot of the major sectors of the Indian industry, like BFSI one sector. We were not there present initially, but now we are strongly present there. Then hospitality, then you know Healthcare and also other sectors, we are expanding our sector base, which are previously more concentrated on retail and telecom. So last three four years, we have been expanding our base, expanding our customers. So when the customers are growing, we are growing along with that and also acquiring new logos, so both actually helping us in getting more. And also, our operational efficiency, like paperless on boarding, are now on a national reach as the compliance and the degree of compliance almost 100%. So that helps attracting more customers. And of course, GST has an impact, but I will not say that GST impact fully felt until now. I think that really give more propel to more growth in the coming days.

Sagar Lele: That was very helpful thanks. Just last one on the industrial space? Have you been seeing any revenue booking in this quarter from the smart city project and if you could quantify that?

Subrata Nag: Yes. The project is a full swing. I think we are expecting it to start in the booking of revenue this year. And also not only that, as well this quarter or next quarter, the BEST project, that what we are doing, that also will start kicking in this year.

Sagar Lele: Sure. Could you also quantify that probably just some ballpark numbers?

Subrata Nag: No, there was no revenue. This financial year do not have any impact on the smart city projects because we will start taking the revenue from this quarter.

Sagar Lele: Perfect. Thanks so much.

Moderator: Thank you. The next question is from the line of Balthazar Florentin-Lee from Sloane Robinson. Please go ahead.

Balthazar Florentin-Lee: Thank you very much. Congratulations on good set of earnings. I just want to talk in the People & Services. Your remarkable hiring numbers, particularly when contrasted against some of your peers, stand out as really excellent. Can you help give a bit of color around that space, whether you are finding it easier to attract more members, whether you are finding it more challenging? What is the environment there for you? And can you see continued growth from that persisting in years to come?

Ajit Isaac: Sure. So one of the reasons why we have been able to grow at a pace that is quicker than market and competition is also because of our continuing emphasis over the years in building a hiring engine inside our company. The number of transfers we get from either competition or from payrolls of organizations which want to outsource activity to us, it's far lesser than the number that we hire for them. So we hire through a combination of recruiting personnel that we have who are actually feet on street, office-based recruiting personnel, Internet based recruiting sources, walk-in candidates that come through a large network of offices that we have got and through referral programs that we run. So the combination of also multi-directed recruiting effort is what is resulting in the number of people that we are able to add on a year-on-year basis. The next point I want to add is also the fact that we have got a large training business. In Excelus, we train about 40000 people a year. A part of them, we are able to absorb into our own business. So that is the way of monetizing our own supply chain. The combination of these two gives us a differentiated recruiting proposition versus competition.

Balthazar Florentin-Lee: Thank you. And how far do you think your engine could go? Is it starting to grow with strain? Is there plenty of strength for this very impressive growth in hiring to continue? Is there any sights of a ceiling in the medium term?

Ajit Isaac: Well, I think up to about 0.5 million mark in the staffing business alone. We are at about 150000, 160000 right now. We believe we should be able to continue with an existing model, existing structure and existing type of or method of managing the business. Once it clears that number, I guess we should be able to add more technology and more business process automation-related investments that will help find the new direction after we get to about 0.5 million people.

Balthazar Florentin-Lee: Thank you very much.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: Good evening every one and thanks for the opportunity and congratulations on a good set of numbers. Coming back to actually the following questions, which have been asked to clearly 38% kind of a headcount growth is not industry growth and we are seeing the second largest player growth and your growth is a big diversion, so just want to understand like what is your sense of industry growth and how much of your growth is driven by market share gain specifically in people and services segment?

Subrata Nag: As you know this industry is still I think 80% of this industry, maybe more than that is unorganized. So it is very difficult to put that, what is currently our market share. So I will not go into that and put a number on the market share. I think our growth is coming, as I told, from few aspects. Number one, we have very checkered customers in all the fields, in retail, in telecom, in e-commerce, now BFSI, so these companies are growing up in the Indian economy particularly services sector. With our operational efficiency, we always try to attract more of their wallet share. So that helps us into getting embedded with the customers. And we always naturally believe that we are not a payroll company. We just do not want to do the payroll. We always try to do something more than payroll with our customers there and with their training process or whatever help they need in their staffing, so we would like to help them. So that is helping us. Secondly, our sales and reach. So we are adding like, as I said, last year, 19 new logos, so that is a large number of logos. So that is bringing the new headcount and also, staffing is getting more and more traction as a whole. So the new sectors are opening up. And so there also, we are helping getting more traction. So all this together helping us towards our growth.

Shaleen Kumar: Sir according to you the market is not weak right?

Subrata Nag: That is the thing. Whenever we meet with people like you, and I think we have been telling Ajit and myself that we do not feel that jobless growth or other, what we have been hearing, that we normally do not see on the ground. We see there is a huge demand on the ground. And if you see as we told you, I mean, staffing or in facility management, we always have 5% to 10% in our deal count versus our deployment count. So any day, if I have the ability or get that many people, then I can always fill another 5%, 7% more people on ground. So that challenges remain there. So I do not see any traction in the demand as such.

Shaleen Kumar: Sir we understand in terms of long-term guidance, but for FY2019 is there a guidance you are giving in terms of the revenue margin or whatever you like to give?

Ajit Isaac: We do not usually give guidance, Shaleen, but if any statistics from the past is used as an example. For the last year, our organic growth rate was about 30%. Historically, over the last 5 to

7 years, about two-thirds of our growth is organic and one-third is inorganic. So that is maybe a guideline that you can use for yourself while you sort of extrapolate our numbers for the future.

Shalin Kumar: That will be great Ajit, but just on last question on industrial asset management the margins are soft here, but I believe that it is a high margin business, but what is happening here?

Ajit Isaac: So I think we have to look beyond one year's numbers in the case of industrial asset management. At Quess, we believe in taking a long-term approach to business decisions. And we think, to remain invested and to continue to support the industrial asset management business as it is transitioning out of a people-based, supply-side related service profile into taking SLA related contracts, we will see some contraction in margins before it stabilizes. The next year is going to be a different year. With the addition of revenues that will come from the digital infrastructure space, the margin profile of the company should change and we are hopeful of reversing this trend of a declining margin profile in industrial asset management this year.

Shalin Kumar: Thank you so much and best of luck for your endeavors.

Moderator: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher Private Limited. Please go ahead.

Madhu Babu: Sir this year there has been market share and gain for us in the people staffing business from two to three vendors, so what has been the differentiation in the two large contracts which we got one from BFSI and the other from the telecom vendor? What has been the differentiation, which lead the client to move to ours?

Ajit Isaac: So this is a bit of a sales-related question in terms of what is helping us gain market share. I think there are three parts. One is our client serviceability which is helping us mine deeper into clients and the reflection of the ability to mine clients and give examples of the relationship is getting us new contracts. The second one is, at the associate level, our management of associates is, we believe, of a superior type. So we are able to retain associates and then the goodwill that comes out of that helps us in terms of recruiting more. And when you recruit more, you develop greater traction with clients. So the second aspect is about how we are able to do recruitment. And third is the compliances quality that we have got. It is perhaps of the highest level in the industry, and the use of our compliance tool also in this to manage.

Subrata Nag: Also our hiring capability and hiring engine. People come to us and when they see that we can hire a large number of people, train them and deploy them in a time bound manner, so that helps us actually to get more new customers and also get more from the current customers.

Madhu Babu: So Sir, secondly, recently, government has passed a fixed-term employment bill, so that companies can directly hire employees for a specific tenure. And apart from that, manufacturing, if you can see a lot of the contract workforces on the bipartite contracts there is no third-party like Teamleases or a Quess Corp in between. So how do you see these two factors driving the growth trajectory for us on the people staffing side?

Subrata Nag: See, I don't believe or we do not believe that companies are only outsourcing just because of that employer and employee relationship. Companies are outsourcing much more other causes than just too labour-related issues. First and foremost is managing of a large workforce conveniently and effective management on the ground. So I do not see that that those things will be taken care of by just having a permanent or temporary contract. As long as we are able to provide the customers just because not only as an intermediary, just the payroll agent, as long as we are able to provide more services to the customers, like training, hiring, managing their compliances. Let's take a mobile company, when they are launching a new product, we are actually running their entire training program across India for 30000 people or 35000 people. So that actually gives immense value other than just in a payroll and staffing agency. So if you just do the payroll and staffing, then maybe you are under trade. But as long as you are bringing new services along with your normal hygiene products, I do not see that the fixed-term employment will be any threat to the staffing companies, at least to Quess. I think we have to improve ourselves. We have to bring new services. And we have to be a partner with our customers in their day-to-day activities, okay? And then, if we do that, I do not see that the fixed-term employment will have an impact on our business.

Madhu Babu: Okay, Sir. Just one last question. What is the cash flow from operation and the depreciation run rate should we take at the current level for the going forward?

Subrata Nag: Yes. Cash flow from operation…

Madhu Babu: Full year?

Subrata Nag: Yes. Full year is Rs.110 Crores from this year that is 30% of our EBITDA. We have been telling that our goal and we are good to tell you that we have achieved, but our further goal actually to improve that. And this year, we will be trying at least between 35% and 40% in between to achieve that conversion. On the depreciation, yes, I think more or less, whatever you will have, I think, you can consider that rate. Yes, other than depreciation, there is one aspect is that almost Rs.30 Crores of the part of the depreciation is basically an amortization of the contracts, which are goodwill contracts, basically the value assigned for the contracts for the acquired assets. So that is the value getting amortized over a period of seven years, so that is a non-cash item that is actually increasing our overall depreciation amount.

Madhu Babu: Okay. Rs.13 Crores is the amortization?

Subrata Nag: 30.

Madhu Babu: 30 per quarter?

Subrata Nag: Per annum.

Madhu Babu: Okay. Thanks Sir Bye.

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

Nitin Padmanabhan: Thanks for taking my questions. We had spoken about the acquisition of the remaining stake in Comtel, does that reflect within our borrowing number?

Subrata Nag: No, most probably we will close this deal. We have just taken the approval and signed the definitive agreement, but the deal will be closed in the first week of October. If you see, we have cash almost Rs.1000 Crores in our balance sheet, so we will see whether use that or we will go for any further borrowing. Most probably, we will use our own money to buy. So as on March 31, 2018 balance sheet, there is no additional borrowing for this additional stake what we are supposed to purchase.

Nitin Padmanabhan: Sure. And the valuations would be similar to the last time, last round actually?

Ajit Isaac: That is right, yes.

Subrata Nag: Yes.

Nitin Padmanabhan: Right. And so I was just looking our net cash number is at Rs. 67 Crores. So I was just wondering, considering that, are we going to, sort of, slow down on acquisitions? Or would we need to come back to the market? Or would we sort of leverage further up from where we are today?

Ajit Isaac: Our prudential norm for debt in our company is to be less than 2x of EBITDA at the net debt level. So we do not intend to go beyond that. So we have enough on our plate in terms of assimilation of some of the businesses that we have bought. So it is not to say we will go slowly, but I think we want to pace ourselves appropriately so that we use available resources in the company optimally.

Nitin Padmanabhan: Sure. And just one last question from my side; on Manipal, this quarter, if we look at the financials, the profit after tax that we have disclosed for the quarter seems to be more than double of what it was in the previous quarter. And the revenue includes other income. So I was just wondering is there any one-off in that number?

Ajit Isaac: In case of Manipal?

Manoj Jain: This is a one-off item because earlier we have a different ETR and considering the revision, the ETR has been revised during the quarter, and hence, there is a benefit you are looking into the future.

Nitin Padmanabhan: Yes, right. What would be the quantum of that one-off? And how does that impact our PAT overall on a consolidated?

Manoj Jain: Rs.15 Crores for the quarter.

Nitin Padmanabhan: Okay. So why I am asking is the previous quarter, the profit after tax was Rs.53 Crores, sorry, that was Rs.5 Crores and Rs.16 Crores, so fair enough. Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Srinivas Sarikonda from HSBC. Please go ahead.

Srinivas Sarikonda: Good afternoon. This is Srini from HSBC. A couple of questions from me. First, on your pricing growth. Of the total of any growth you have mentioned around 30%, can you give a split how much of it was from the pricing? Because the headcount, which I have, I believe, is at the end of the period headcount, so that is not the average headcount?

Ajit Isaac: Yes. So pricing-related changes have not been - not very significant.

Subrata Nag: Not very significant or substantial. But changes primarily came from the volume, okay? You can say overall, at least you can say the 80-20, 80% came from the volume, around maybe 20% was the increase in the minimum wages and the price increase, okay?

Srinivas Sarikonda: Okay. Just trying to understand. So you are saying that the price increases, which you see in your organization, will be same as like what we look at the headline with inflation or probably the increase in minimum wage or something. Because if I look at the staffing companies pricing or wage inflation, it is a bit different from what we look at the headline wage inflation, because sector mix will cause a different and bid premium, like if a person is shifting from a role to other role, he will go for a 30% hike or something like that. So that kind of mix actually makes staffing companies pricing inflation a bit different from the headline wage inflation. So how you are saying that that factors are not impacting right now for Quess?

Ajit Isaac: No, so pricing changes in the staffing industry do not happen very often. Worldwide, if we see, the price at which you sell has remained a fair constant across many years. Changes in profitability occur due to essentially two circumstances: One is in your ability to serve at a lesser cost, or alternatively, by changing your product mix, which will give you a higher value for something more that you give than just staffing. So only one of the two will influence your profitability changes. The ability to go and negotiate price, especially in a market, which has very low entry barriers, is difficult. In India, it is also a price-sensitive market, and it is not very easy to achieve it.

Subrata Nag: Yes. Having said that, only thing in the pricing increase what comes normally when we have the percentage in our contracts, so when the minimum wages goes, so your percentage may not go, but your absolute amount of realization goes up. And also, where you have the fixed price, every year you get certain amount of increase there. But primarily, as I told you, 80% of our growth ultimately come from the volume, 20%, 25%, may be, comes from the price.

Srinivas Sarikonda: Okay. So I mean if I have to get a picture, what percentage of your contracts are based on percentage, I mean, markup? And what are based on fixed amount premium on the candidate?

Subrata Nag: Yes, I do not have that, immediately, do you have that? 70% is the contract when it is percentage based.

Srinivas Sarikonda: Percentage markup. Okay, understand. And the second question is on the integrated security solutions. Does this mean an electronic security kind of thing like you install cameras, alarms or something for your client? You are only manned guarding?

Subrata Nag: No. See, when we acquired Terrier, it was, you can say, 98% or 99% manned guarding, just a very, very small security surveillance business. So after we took over, we started actually to emphasize more on the security surveillance business. We setup our Network Operations Centre (NOC) in Bengaluru. It took some time because it is a state-of-the-art NOC, and then we went out in the market and started getting contracts. The last year, we did around - I think Terrier did around Rs.8 Crores or Rs.10 Crores on a $1.5 million business in the surveillance. But that is the focus area for us. It is good to tell you that we got two recent contracts. One is with a PSU bank where I think around 50 ATMs where we are putting surveillance. And one gold loan NBFC in India where a on a pan India basis, we are doing almost 1100 branch, 1098 precisely surveillance. So we are slowly getting into the market, but we are still at a very early stage. I think that is the one area we will be focusing more other than the manned guarding in the security space.

Srinivas Sarikonda: Okay. So in terms of initial investment on the capital equipment, that will be on your books, you will be investing it? Or your client will be buying it, and you are just installing it and maintaining it?

Subrata Nag: Both ways. Some cases, the client is buying, and we are installing and managing that. In some case, we will be putting our money and put the capital investment and then recoup the capital investment through the AMC and our managed services over the period.

Srinivas Sarikonda: Okay. So your contracts are usually of 4 to 5 years for this contract? Like how do you…

Subrata Nag: Where we will be putting our own money, definitely, the contracts will be more than at least three to five years. Where the customers putting their capital and we are coming as a service provider and installation and the manage provider, then there is normally an annual contract.

Moderator: Thank you. The next question is from the line of Snigdha Sharma from Axis Capital. Please go ahead.

Snigdha Sharma: Great. Thanks. Two quick questions from my side; so first of all, can we get an update on some of the earlier bigger acquisitions that we did like Brainhunter and MFX? How have they performed during the year, and what is their contribution to overall GTS revenue and EBIT? And secondly, can we discuss a little bit about the Industrial segment? What are some of the growth drivers and a strategy going forward in that segment?

Subrata Nag: Yes. MFX actually has been doing remarkably quite well. Last year, also they performed as per the budget, okay? They are, I think - they have achieved EBITDA of almost USD $4.6 million - USD $4.7 million. At Brainhunter, last year was just a - we just broke even. This year, we made 1.5 million at EBITDA level. And also it is PAT positive. That is a good thing actually; we made around 500000 PAT in the Brainhunter. So both companies turned around, and Brainhunter is showing good results, and in the April and May also, we are seeing very good traction there. So those are the assets you can say has paid our investment. And what was the next question...

Ajit Isaac: In the industrial asset management. In the IAM space, we will have a subsector approach in that. O&M remains the traditional business that we had. We verticalized that in a separate team, and they continue to reengineer the business to work at higher numbers. The second sub segment in that is material handling and supply chain management, which is a new area. We have got a first few contracts from that. The third is digital infrastructure. The digital infrastructure is a no brainer that is making money, and it is seeing a lot of traction in the market. The turnaround, if any, has to come from the first one, which is the O&M space and which we believe, this year, it is right for that.

Snigdha Sharma: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Pranav Bhavasar from ASA Capital Management. Please go ahead.

Pranav Bhavasar: Thank you for taking my question Sir. I wanted to understand is it possible to share the headcount growth, from which particular sector has it come in the P&S business?

Ajit Isaac: Banking financial services.

Subrata Nag: In the P&S, primarily, 43,000, but out of that, primarily, the large chunk came from the BFSI segment.

Pranav Bhavasar: Yes, that is your primary contributor. Okay, Sir. And also, I can take the question offline, but I would like to have like detailed breakup on the subsidiaries and the contribution, is it possible to share, Sir, maybe offline? I will be in touch with the IR team, Sir.

Subrata Nag: Yes we can do, yes sure.

Ajit Isaac: We are happy to do that with you offline.

Pranav Bhavasar: Great. Thank you so much Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Thank you for giving me the opportunity Sir. My question is on the operating margins, at consol level, we have seen this time, and it stands at about 5.7%. And you have done certain acquisitions which have better margins in the range of 8% to 11%. For example, Manipal is having about 11% margin. Comtel is at about 8%. So going ahead, what the company's target is in terms of OPM? Where do we see margins going up to about 7% to 8% in the near term? Or it will take time to margins really improve?

Ajit Isaac: So there are two parts to the answer. One is that our P&S business, the large part of our business, which is almost I think 38% of our total sales, is growing remarkably well and that constitutes a large business, which is working at a lesser margin. So we do not want to depress that growth, so that our overall margins will increase. As the product mix changes, I think it will take us between another 9, and let us say 15 months to be able to demonstrate big changes in our margins. Incremental changes between quarters will continue to happen, but large changes to help us get to the 8% will take us maybe another - maybe 18 to 24 months. So that is really the outlook.

Kaustubh Pawaskar: Got your point, Sir, thank you and my second question this time, this year, your debtor days have gone up to about 54 days. What is the particular reason for that? And where do you see your working capital days going ahead, do we expect your working capital days to come - improve in the coming years?

Manoj Jain: Yes. If you see, the debtor days are mainly increased because of partial consolidation of our acquisitions, which is Vedang Connect business mainly. And what happened that we have consolidated for Q1, only one quarter, but the total receivable get into added. So it is a tweak into that that is why it is a main reason of the partial consolidation of the acquisition during the year.

Kaustubh Pawaskar: Right, sir. And Sir, one more on the cash flow from operation. As you said, that you are targeting about 35% to 40% of your EBITDA to be cash flow from operations where do you see this cash to be utilized, to reduce your debt on books or your future acquisition?

Ajit Isaac: So as I mentioned in the past, our prudential norm for debt is to be not more than 2x of current year EBITDA net of cash basis. So I do think we will at this point go and pay down debt to utilize some of the cash in our books. Our options are really to dividend or to invest in new assets. Our inclination and bias is to invest for more operating revenues and profits of the company.

Kaustubh Pawaskar: Thank you Sir and one last one. So we are getting benefits under 80JJAA of Income Tax Act, are we going to continue to get this benefit in the coming years?

Subrata Nag: Yes, yes. As there is no sunset clause and we have been adding more people and the headcount has been increasing, so surely we will avail this benefit as long as we are getting permitted to avail under the act.

Kaustubh Pawaskar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: I have a few questions. First question is, in your view over next two to three years, how do you see overall sales mix segment-wise? Second question is, if you can give some colour on global tech business, how do you see the headcount in that business and do you see change in improvement in margins because current year again the margin in that segment is also a little bit declined. Third is, overall on spread basis, where do you see improvement in terms of per employee headcount? Which segment do you think you can improve that? And over next two, three year how should we see that direction?

Ajit Isaac: So from a product mix standpoint, we think customer life cycle management and facilities management will have a greater contribution to our overall sales. The last year has been promising in terms of the outlook for both these businesses. On your second question, about GTS, the combination of staffing, infrastructure management services and a sort of digital pay that we have, we think will increase our margins in the future. So we have got three assets in the staffing space; one in Singapore, one in India and one in North America. While in India and

Singapore, we are number one, so there could be some saturation in terms of growth, our larger growth could come from the North American market, which is usually the largest IT staffing market in the world. Combined with the fact that we can now sell or layer up infrastructure management services and some digital services, we think we have a potential to go to a higher margin level. This year has been a little tighter than in the past, but with the addition of a senior management and a marketing team in the United States we think we have got greater horsepower to go to markets with it. In terms of overall margins and spreads, we have been following a nonlinear model of growth. If you examine over the last five years, our headcount growth has been about 34%. Our revenue growth has been about 44%. Our EBITDA has been about 50%. So you will see that over a period of time, the type of investments we are making and the type of services that we are delivering out, we are morphing existing services from where they are to what they are today, we are able to go up the value chain. So the spread will continue to go up to an aspirational 8%. That is our directional norm, to get to about 8%.

Rajesh Kothari: And you say that the two segments you mentioned, one you said facility management, which should go at a high rate and the other segment, is?

Subrata Nag: Customer life cycle, CLM business.

Rajesh Kothari: Customer lifecycle and that is basically part of which segment?

Subrata Nag: GTS, that is part of our...

Ajit Isaac: Overall, part of our technologies.

Rajesh Kothari: Within global technologies, basically?

Subrata Nag: Yes.

Rajesh Kothari: Okay and how do you see the full year depreciation post complete amortization of all the acquisitions? Can you give some number on that?

Manoj Jain: As I have told earlier, the depreciation includes Rs.30 Crores, which is the customer relationship amortization, and which will continue for next seven years. Apart from that, there is a normal depreciation of around Rs.45 Crores and it will normally grow as the businesses grows, and we invest in certain businesses based on the contracts.

Rajesh Kothari: So Rs.30 Crores, what you mentioned will be on annualized basis, am I right, because you have multiple acquisitions at a different point of time, so I am just trying to understand. Then full year FY 2019, we should assume Rs.30 Crores for amortization?

Ajit Isaac: Yes.

Manoj Jain: Right.

Rajesh Kothari: Okay and what will be the tax rate, because all these benefits are net tax. Should we assume near to 0% to 3% kind of thing?

Manoj Jain: Yes. You are right, it is around - ETR is coming around 3% and total ETR, which is coming after this year benefit.

Rajesh Kothari: And over the next two to three to five years, I do not know whatever timeframe you can choose, in terms of your overall revenue guidance, would you like to give some guidance on that?

Ajit Isaac: We do not usually give revenue guidance, but if any data from the past is an indication of what is possible, our organic growth rate in the last one-year has been about 30%. Our compounded annual growth rate across five year is about 45%, so maybe this is a number that you should take.

Rajesh Kothari: So you think you can continue - the past trend can continue over next five years, that is what I am trying to understand.

Subrata Nag: We strongly believe that we will - there is a possibility, and we will try to achieve that and then future will tell..

Rajesh Kothari: I understand. I mean that will be your effort. Sir, one small request. Since you are now one of the largest employer and getting all the ranks. If you can include some segment-wise presentation detail, quarter-by-quarter the headcount segment-wise, what is the growth Q-O-Q, Y-O-Y, that will be really helpful. If you can put eight quarters in a place in every quarter rather than giving just one full year in your presentation, that will be really useful for us that will avoid many questions which otherwise a lot of time and efforts will be taken from our side as well as your side post the conference call, so we can avoid that, if possible.

Ajit Isaac: Thank you for your suggestion.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Thank you so much for the opportunity. So just one clarification. You mentioned in case of Brainhunter, we did a $1.5 million of EBITDA and a PAT of $500000?

Subrata Nag: Yes, PAT some $500000 for the year. Yes.

Kunal Bhatia: Okay and Sir, secondly just in terms of the acquisition of Monster, how much was the total acquisition cost, was it Rs.100 Crores or a Rs.144 Crores?

Subrata Nag: Rs.144 Crores was paid, but there was a cash amount of almost Rs.50 Crores. So our net A is that USD $14 million.

Ajit Isaac: Net of cash, it would be about Rs.90 Crores.

Subrata Nag: Yes, Rs.90 Crores.

Kunal Bhatia: Okay, net of cash would be of Rs.90 Crores and on the goodwill included in this would be around of Rs.75 Crores?

Subrata Nag: Monster goodwill yes, around Rs.75 Crores.

Kunal Bhatia: And that is a part of the overall amount?

Subrata Nag: Yes.

Kunal Bhatia: Okay, fine Sir. Thanks.

Moderator: Thank you. The next question is from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: Hi gentleman, congratulations for very good set of numbers, so just one clarification. You mentioned 30% organic growth, is it the previous years - last five years CAGR or the FY2018 year's organic growth?

Ajit Isaac: FY2018 year's organic growth has been 30%.

Mayur Patel: Manipal is consolidated in the fourth quarter?

Subrata Nag: Manipal consolidated, yes it is consolidates from December 1, 2016, previous year, so last quarter itself it is done because NCLT approval came December 27, 2017 and so when we did the December quarter it got consolidated at that time only.

Mayur Patel: And Mr. Nag, if you can just, the improvement in cash conversion, any specific areas or initiatives you have in mind, can you share with us or it is across-the-board efforts?

Subrata Nag: As we have been telling that any staffing business, after few years, it is normally started throwing the cash and definitely it will be across our business, particularly industrial, what we have invested some of that which is in the digital infrastructure to build - to go in the market, you have to build your team and so those are the things will be started showing the results this year, okay and some of like U.S., we have been investing in building a staffing business, so that will also hold. So it will across the world business sector and also our collection efforts to bring down the DSO. So everything will be, I think coming together to give us that, and some of the business which is the higher-margin business in CLM and others, so that will also increase the cash conversion.

Mayur Patel: And I remember you guys were thinking of structuring things around, shared services and bringing all the companies, all your subsidiaries, associates, everything, the services part giving it, so that thing is done, or it is?

Subrata Nag: It is an ongoing process. We have a shared service center, we have almost 300 people and so whenever we acquire a company, we do not want to disrupt the activities of that company. We take our time, but over the period for the acquisition net base, normally 12 months, we start slowly integrating and bring everything into our shared service, so it is an ongoing process, we have been doing that for the new acquisitions. Old acquisitions have already been done, and we will carry on that. That is our idea.

Mayur Patel: Okay Sir. All the best. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Ajit Isaac: Thank you ladies and gentlemen, for your insightful questions, and we enjoyed the discussion both ways. As concluding comments, as management here, we are focused on sustaining the growth that we have achieved quarter-on-quarter over the last 40 quarters. We believe that we can grow this business organically at least by about 20% every year. We want to expand our margins. Our margin expansion has been central to our thinking and to our efforts here. We have grown from what was about four plus percent to about 5.5% plus over the last few years. Our target is to get to 8%. We have a huge focus on cash conversion, up from about 30% this year to at least about 37% to 40% in the next year and finally customer and employee satisfaction level. We believe a combination of these three or four initiatives will contribute to the creation and the increase of shareholder value, and we remain committed to that. Thank you again and we hope to catch you soon on the next round of the analyst conference.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.