



## “Teamlease Services Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Teamlease Conference Call, hosted by IDFC Securities Limited. As a reminder, all participants' 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 "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Gupta from IDFC Securities. Thank you and over to you Sir!

**Abhishek Gupta:** Good afternoon everyone. Welcome to the call with Teamlease Services management to discuss the recently announced acquisition of ASAP Info Systems. Today, we have with us, Mr. Ashok Reddy Co-founder, and M.D. of Teamlease Services and Ravi Vishwanath, CFO. I would request Ashok to share his view on the acquisition first and then we can take questions from the participants. Just one request to all the participants to please restrict questions to this acquisition only. Over to you Ashok!

**Ashok Reddy:** Thank you, Abhishek. Just in continuation of our earlier statement and earlier discussions I think we continue to have our focus on the general staffing space and organic growth on that front and we clearly wanted to compliment the general staffing with the vertical play which are less volume driven but more value driven in terms of the margin front and I think IT was the vertical that we clearly had identified and were having multiple discussions on and finally culminated in our signing the definitive agreement with ASAP Systems. Effectively, has about a 1000 associates working with multiple clients across the country with five offices and I think what it enables us to do is give us an opening balance with the existing customer relationships they have and also inability to leverage their presence in the space across other customers that we work with. So I think we are looking at using the platform that we acquired to effectively try and scale further with existing customers and new customers as we go forward.

We do believe it is a much higher margin business and it will be bottomline accretive. We hope to sustain the margins as we scale the business up and go forward. I think it is about a 63 Crores turnover for 2016. It has grown rapidly over the last two to three years primarily as a function of increasing associate numbers and also higher value business from various customers. I think these two have been the primary driver on the topline. Some element of working on the costs, working on aligning the costs of Teamlease and ASAP would also happen once the closure to the deal is completed. Once we have certain CPs that gets closed out the closure to the deal would also happen. That is the update. I am happy to take any questions on that.

**Moderator:** Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Sumit Poddar from Birla Sun Life. Please go ahead.

**Sumit Poddar:** Congratulations on this acquisition Sir. Just wanted to have a better understanding in terms of whether it will continue to be under the same brand as such or would you be merging it along and

what kind of back end or the common expenses benefit that you would have with this acquisition?

**Ashok Reddy:** I think we will continue the ASAP brand as the IT staffing vertical for the foreseeable future because it has the presence in this space. It is acknowledged and we would try to leverage that as we go forward. From leveraging the various costs and stuff, I think if we really look at it, they have five offices. The smaller ones especially in Chennai, Hyderabad, Gurgaon and Pune, we would look to consolidate into the Teamlease offices itself. So I think some element of a cost play can come in on that. Also just the functional overheads, typically the way we are structured is to have various P&Ls and then the horizontals of HR, Finance and Regulatory Compliance sitting on top of as a common support function. We would look to create the same for ASAP also. So while the P&L and delivery structure would continue to be there, I think the horizontals will become common for ASAP.

**Sumit Poddar:** Sir, what kind of growth that you would look for this kind of business?

**Ashok Reddy:** Early stages to make that statement at this point in time, but clearly the opportunity in terms of market seems to be large in the IT staffing space, more companies coming into outsourcing and also more outsourcing for company is happening and this is something that we have been seeing into this space. So obviously they have been able to have a 50% to 70% growth in the last two to three years, primarily driven on lower volumes and lower base, but I think we would look to once the closing is done and we take comprehensive charge of the business, be in a better position to comment on future growth.

**Sumit Poddar:** Sir, 20% payout that we mentioned is 20% of 67 Crores or 20% will be additional to 67 Crores?

**Ashok Reddy:** No, it is 20% of 67, so 80% happens on closing, 5% after six months and 15% after 12 months.

**Sumit Poddar:** Great Sir. Thanks and all the best. If I have any questions, I will come back in queue.

**Moderator:** Thank you very much. The next question is from the line of Abhishek Gupta. Please go ahead.

**Abhishek Gupta:** Thanks for the call. One question on the FY2016 numbers of ASAP it seems to be a big, big year for them? Have they done some acquisitions themselves or this has been purely organic for them because I think the revenue has moved from 27-odd Crores to 63 Crores.

**Ashok Reddy:** It has been a pure organic growth, Abhishek primarily like I mentioned earlier driven on some of their long customer relations given them larger volumes and also they have got certain new mandates that effectively had a much higher per associates billing. These two have really driven the element of the revenue realisation to be much higher last year. They have not done any acquisition.

- Abhishek Gupta:** Can we have some rough breakup of how the volume growth has looked like for them in the last year, like the 920 associate number as of March, what was it perhaps last year?
- Ashok Reddy:** They have actually grown at about 40% in terms of volume growth over last year, Abhishek.
- Abhishek Gupta:** That is it from my side.
- Moderator:** Thank you very much. We have the next question from the line of Mr. Varun Goyal from Motilal Oswal Asset Management. Please go ahead.
- Varun Goyal:** My question is in context of the working capital situation can you just tell us what is the kind of debtor days and the billing cycle that we have in this business and will the working capital situation for the Teamlease as a group will change as we have more and more revenues from the IT side of the business?
- Ashok Reddy:** Varun one of the key things that we evaluated very hard was the quality of revenue and the quality of earnings. A few things which were very, very important for us was the working capital cycle, the DSO, etc. The DSO is currently at about 54 days, which actually is pretty good from an IT staffing perspective and we do not see this to be causing a big strain on the overall DSO of the group going forward.
- N. Ravi Vishwanath:** Because we will continue to maintain a similar kind of a standard in terms of the DSOs are concerned.
- Ashok Reddy:** Just as an addition to that the general staffing space only 20% gets funded and 80% for us is collect and pay model. The difference in the IT staffing space is that 100% of the client base is a funding model and typically between a one month to a two month cycle to collection. So working capital would be required to the extent of the salary payments roughly to a two-month period 56 days being the DSO, but I think the rigor of collection and focus on that will continue to ease.
- Varun Goyal:** Just to follow up on this. So as the proportion of revenues from the IT side of the business increase, should we expect that for Teamlease as a group also from currently 80% of collect and pay model, should we see some kind of debtor days also coming on the group as a whole?
- Ashok Reddy:** There will be a marginal move on that front for sure, but if we really look at it I think in the general staffing space, we will continue to sustain the historical trend on that front, so typically on the non-funding, our DSO is about two days and on the funding it is about 20 days. The IT staffing will have an element of 56 to 60 day kind of a DSO. If you really look at the topline billing from the IT side accounts for about 2% to 2.5% of our topline. So to that extent the increased DSO will not move the overall needle of the organization substantially.
- Varun Goyal:** Thank you.

- Moderator:** Thank you very much. The next question is from the line of Mr. Sumit Poddar from Birla Sunlife. Please go ahead.
- Sumit Poddar:** Sir, just wanted to understand that in this business, I mean it is a bit different from the general staffing. So here the manpower or the employee or the associate that has to be sourced is being sourced by us or it is like the company sources and puts it on the roles?
- Ashok Reddy:** The two key ask at the IT staffing business have is 100% hiring and a 100% funding. These are the two key asks that the business has besides obviously the aspect of ensuring salaries get paid on time and accuracy is strong, HR support system compliance and all of that. So, I think with these two asks is where the element of a willingness to pay a higher margin exists so yes we will be doing 100% sourcing for the IT vertical.
- Sumit Poddar:** What are the key three things that you would be watching to make sure that it is on track as far as your expectations for this acquisition is concerned?
- Ashok Reddy:** I think the monitoring the same as what we do for the Teamlease will be essential in the IT staffing space. One is obviously the hiring aspect being on track, the client relationship and client acquisition and the third will be ensuring the collection focus because here like I mentioned there is a working capital requirement and we need to be rigorous in terms of follow up to collection group closure. So these are the three key things that we would focus on.
- Sumit Poddar:** Sir how would be the customer concentration for these guys?
- Ashok Reddy:** Typically in the IT staffing about 75% to 80% of the business comes from about four to five customers and then you have a long tail of a customer base who has come on board with smaller numbers but you keep that engagement live with the smaller number because some of them are babies and some of them are dwarfs in the sense that a longer term engagements with these customers really gives you the potential to scale up at a later point in time, but there is an element of 75% to 80% coming from four to five customers.
- Sumit Poddar:** What would be the total client list here?
- Ashok Reddy:** About 30 customers.
- Sumit Poddar:** Are we sharing the names of these four to five large customers?
- Ashok Reddy:** Once we have the element of the closure, we will be able to provide more details.
- Sumit Poddar:** Sir, in case if we acquire further IT talent management company as such would we be kind of looking to consolidate those or we would continue to be under different brands?

- Ashok Reddy:** It would be our intention to work the entire IT staffing vertical under one umbrella. The only reason why we would look to keep a differentiated play would be if there was a nuance that would not permit us to consolidate.
- Sumit Poddar:** Great. Thanks. All the best.
- Moderator:** Thank you very much. We have the next question from the line of Mr. Abhay Moghe from Bajaj Allianz. Please go ahead.
- Abhay Moghe:** Thanks for the call and taking my question. Just one questions on the top four to five clients, which are contributing 80% of the revenues. I understand you cannot give names but are they the captive units of MNC IT companies or they are the Indian IT companies?
- Ashok Reddy:** They are IT companies.
- Abhay Moghe:** They are not captive units of MNC IT companies?
- Ashok Reddy:** No.
- Abhay Moghe:** Are you sharing any numbers on the profitability side, EBITDA margins or PAT margins or anything?
- N. Ravi Vishwanath:** We have shared.
- Ashok Reddy:** The EBITDA is 17.5%. PBT is about 11 Crores on 63 Crores 11 Crores is PBT, EBITDA level.
- Abhay Moghe:** Thanks a lot Sir. That is it from my side.
- Moderator:** Thank you very much. The next question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.
- Anantha Narayan:** Thank you and congratulations for Ashok and Ravi for a big acquisition. I just had a couple of questions, first Ashok this business seems very, very attractive, and so what was the thinking of the seller to sell this at this point of time?
- Ashok Reddy:** Typically the aspect of opportunity for roll up and acquisition in this space comes from the highly fragmented market that it is and there are different motives for different peoples to sell out, ranging from, these are the discussions that we have been having and have had in the past, ranging from people have scaled it to a certain size are not able to take it to the next level, somebody started the business, the kids do not want to inherit it and they want to exit it or they have other businesses that they are doing and want to kind of focus on other opportunities and so on, so I think it is different motives for different peoples that drive the element of cash out from a perspective of the fragmented market opportunity that it is.

- Anantha Narayan:** As a follow on both these is a competitive process?
- Ashok Reddy:** No we had an exclusive on it. They have approached us. We have been in dialogue with them over the last few months. We have not had to bid for it in an auction.
- Anantha Narayan:** My final question may be addressed to Ravi is, do you have the cash flow numbers for this entity for last year? As in did it do any free cash and what was the number?
- Ashok Reddy:** We will be able to share most of that information at closing Anantha. It is the positive number.
- Anantha Narayan:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Sambodhi Sarkar from Sam India. Please go ahead.
- Sambodhi Sarkar:** Sorry, I missed the first five minutes the call, I do not know if this was mentioned then. I just wanted to get a sense, so my introduction with the management like was in the line at IT staffing would have around 5000 to 10000 associates for the company and this is around 928 associates, just wanted to get sense whether Teamlease would be looking to do more acquisitions in the IT staffing space or look to growth this business organically?
- Ashok Reddy:** We will look at both. We will look at further acquisition opportunities. If something good comes up and we will also use this opening platform to effectively try and grow the business further with the existing customers and new client acquisition.
- Sambodhi Sarkar:** We will be looking at something around 5000 to 10000 associates for this business right with the IT staffing business?
- Ashok Reddy:** Over a period of time the sky is the limit on that front. We would look to expand the business clearly.
- Sambodhi Sarkar:** The second thing is that the current margins of this company, I understand the gross margin is around 24%, 25% levels. How has this been historically and how do you expect this going forward?
- Ashok Reddy:** Historically, also has kind of played out around the same level. It has not seen a major dip per se and I think like I was mentioning earlier we would like to sustain the margin play that it is because the IT vertical and vertical place per se in the staffing side will really not be volume drivers for us, but will be value drivers. Margin improvement and margin sustenance is something that we will continue to focus on.

- Sambodhi Sarkar:** Currently I understand this would have contributed at 2.5% of your topline in FY2016, so you expect something similar within 2% to 3% going forward in the near term as well right, not to be a huge volume changer for you.
- Ashok Reddy:** Yes.
- Sambodhi Sarkar:** That is all from my end. Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Mr. Abhishek Gupta from IDFC Securities. Please go ahead.
- Abhishek Gupta:** Thanks Sir. Just any color on the bench strength of this company or there is no bench-on-bench?
- Ashok Reddy:** No bench. Primarily, historically why we had stayed away from the IT vertical was the bench asked from customers, but over the years the bench ask has been going away and which is really what gave the comfort for us to get into the IT vertical, the company has no bench.
- Abhishek Gupta:** The management stays back till the earn outs of 12 months or there is a longer-term contracts?
- Ashok Reddy:** Till the earn out, they do have professional CEO who has been brought in they do have various functional heads and co-team of 170 people, some of them are long tenures with the organization all of them will stay back. The promotor will move out at the end of the year.
- Abhishek Gupta:** This earn out is to the promotor?
- Ashok Reddy:** To the promotor. To the team as we have for our core employees fixed and variable, the variable being linked to performance.
- Abhishek Gupta:** That answers my question. Thank you.
- Moderator:** Thank you very much. As there are no further questions, I would like to hand the line back to Mr. Abhishek Gupta for closing comments.
- Abhishek Gupta:** Thanks a lot everyone for the participation on a short notice. Thank you to the management as well for the call.
- Ashok Reddy:** Thank you very much Abhishek.
- N. Ravi Vishwanath:** Thank you all.
- Moderator:** Thank you very much. On behalf of IDFC Securities that concludes this conference. Thank you for joining us ladies and gentleman you may now disconnect your lines.