“Allsec Technologies Limited
Q2 FY ‘23 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the Allsec Technologies Q2 FY '23 Conference Call hosted by Anand Rathi Share and Stock Brokers. It is my pleasure to introduce the management of Allsec Technologies, who are here with us to discuss the results. We have with us Mr. Ashish Johri, CEO, and Mr. Raghunath Parthasarathy, CFO.

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. I now hand the conference over to Mr. Ashish Johri. Thank you, and over to you, sir.

Ashish Johri: Thank you. Good morning, everyone, and thank you for joining our earnings call today. The results and the presentation have already been uploaded on our website. Anything we say, which refers to our outlook for the future is a forward-looking statement and must be read in conjunction with the risks that the company faces. These uncertainties and risks are included, but not limited to what we have already mentioned in our Annual Report.

I will start with a brief overview of the financial performance, followed by key business updates. And post that, we will be happy to take your questions. So let's dive into the financial performance.

Q2 FY '23 has been a good quarter for Allsec. We have achieved the highest ever quarterly revenue, clocking INR 94.2 crores in this quarter. This revenue represents a growth of 22% over Q2 FY '22 and 7% over Q1 FY '23. Our EBITDA was at INR 21.6 crores, which is a growth of 15% year-on-year and 7% quarter-on-quarter. Our net profit was at INR 15.9 crores, which is a 23% growth year-on-year and 16% growth quarter-on-quarter.

For the first half of FY '23, we have achieved a revenue of INR 182.4 crores, which is 23% higher than H1 FY '22 and also our highest ever half yearly revenue. Our EBITDA for H1 FY '22 was INR 41.9 crores against INR 34.7 crores in H1 FY '22, which is a 21% growth.

The above half yearly performance is on the back of a sustained investments in people, technology and processes over the last few years, and that has helped us bounce back strongly in the post-COVID world. Our cash position and collections continue to be strong. Our quarterly collection from customers crossed INR 100 crores for the first time ever. Our OPS for H1 FY '23 was at INR 40.7 crores, representing a conversion of 98% of EBITDA. The OPS was high at 33% compared to H1 FY '22. The Board also declared an interim dividend of INR 20 per share after considering the strong cash position and the positive outlook for the company.

Now let me dive into the strategic and the business update. I will kick things off by commenting on a few strategic themes that we set upon at the beginning of the year. I'm glad to say that we have seen tremendous progress on each of these themes, let me move on to the first theme, which was improving our topline growth. Over the last couple of years, we have laid great emphasis on improving Allsec's topline. To this effect, we have put very strong sales teams in both HRO and DBS businesses. While in the HRO business segment, we saw some delayed results because of COVID pandemic, but now the results over the last few quarters have been very strong, resulting in record revenues in the current quarter.

During the quarter, we added 42 new logos with an ACV of INR 11 crores. This takes our H1 tally to 86 logos and roughly INR 19.8 crores in ACV. DBS has performed well in the current quarter, with both growth coming from volume increase, especially with the new customers that we have onboarded in the last year. DBS International grew by 36% year-on-year, while the domestic grew 14%. On a quarter-on-quarter basis, international grew by 11%, and the domestic DBS business grew by 12%.

HRO, excluding statutory compliance, grew 15% year-on-year and 5% quarter-on-quarter. Our pipeline and customer onboarding continues to be strong in this business, but our growth is currently moderated, largely due to implementation and onboarding of customers that is ongoing.

The second theme I want to talk about is the HRO platform enhancement. Our HRO platform modernization continues to progress at a rapid pace. We intend to commence onboarding of customers onto the new payroll platform in Q4 FY '23. Our SaaS HCM platform is also on track for onboarding of enterprise customers by Q1 FY '24.

Moving on to the detailed business segment performance, I will start with Digital Business Services, DBS. The DBS business had a good quarter, with revenues of INR 62.7 crores, a growth of 29% year-on-year and 11% quarter-on-quarter. This was largely driven by new customers onboarded over the last 12 months. Our EBIT grew 48% year-on-year and 12% quarter-on-quarter, reflecting strong profit growth in this business. In H1 FY '23, we added 3 logos with ACV of roughly INR 6 crores. The pipeline for this business remains strong, and we are confident of more wins in the coming quarters.

I will move on to the HRO business now. The HRO business ended the quarter at revenues of INR 31.5 crores, a growth of 11% year-on-year. We added 41 new customers during the quarter, with an ACV of INR 9 crores. This is one of the strongest win book in the history of Allsec HRO. Our EBIT in this segment grew by 6% year-on-year, and remained flat quarter-on-quarter. The muted EBIT growth is on account of investments in people that we made both in operations and IT, in anticipation of the strong win book over the last quarter and the prior quarters as well.

We continue to invest significantly in digital innovation in this business, driving both revenues and margin improvements. And as I mentioned earlier, all our platform investments are beginning to come online or will come online over the next six months or so. With this, I conclude my update, and thank you for your support and also for being here today. We are happy to take questions at this point.

Moderator: Thank you. We will now begin with the question-and-answer-session. Anyone, wishes to ask a question may press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Purab Uday Gujar from Cameo. Please go ahead.

Purab Gujar: Yes. Ashish and Mr. Raghunath, first of all, congratulations on a beautiful set of developments that we are hearing on the business front. And of course, the numbers are showing all the progress. Am I audible, first of all, before I ask the question?

Ashish Johri: Yes, you are, please go ahead.

Purab Gujar: So my first question is around the cash, we have around INR 155 crores of cash on the books. I'm seeing that we are utilizing INR 30 crores of that as for dividends. What is overall the cash utilization thought process, and even from a dividend policy standpoint, do we have a very clear cut dividend policy? We've been liking the dividends that have been coming along, but from understanding the future dividend flow, would like to understand some of the policy aspects?

P Raghunath: Hey hi Purab, this is Raghu here, and thanks for your support. On the cash flow after this dividend is declared, we probably have another INR 150 crores of cash reserves. At this stage, the dividend policy, what we are trying to do is, at the end of each year, dividend of what is the maximum allowable as per the Indian Company Act. So therefore, we've been doing that for the last couple of years. At this stage, we try to keep some cash, in case we need some money for inorganic growth, which is why we're not secured, whatever we can bring from Manila, and we do everything else.

We will continue to monitor the situation and the board is fully cognizant of the fact that our price driven policies, from the allowance as the board norms, we will work out what is going to be more open dividend policy so shareholder you are aware of what we can expect on a yearly basis.

Purab Gujar: And from a utilization of I do not hear about utilizing it for any specific acquisitions of any technology or other companies, of course, we have to be mindful of the ticket here. But is there anything on the horizon on that front?

P. Raghunath: No, nothing on the horizon. In fact, we continue to evaluate, there's nothing that is very close. So which is very, we said that we will continue to keep distributing incremental cash flows, while still having the ability to go for something with if something comes up

Purab Gujar: And kind of linked to it is the fact that we have seen a lot of VC activity around Smart HRO, if you will, HR Tech platform space, and it's a two part question. One is, whether we as a company, do we want to look at any VC funding, because that gives a different kind of VC validation. Is that something that the company has evaluated? And second, is it bringing more pressure, in terms of cash burn rate, in terms of having to invest? Because generally, a VC activity in any given space will pump, I mean will create inflation, right, on technology spend. So can you help with that?

P. Raghunath: So Purab, we are not looking at any VC validation at this point of time. We are investing based on our internal accrual. And as you can see, whatever we're investing is not causing much of a difference in our finances at this point of time. Getting the VC may lead to a different trajectory. At this point of time, we don't want to do that. And I think there's also something that we've discussed internally, before we end up in the product roadmap, and we feel that there is a bit of a way for us to move forward.

Purab Gujar: And do you see any pressure coming in terms of inflation on tax spend?

Ashish Johri: Sorry, could you repeat your question?

Purab Gujar: My question is because there is VC activity in the space we operate in, on the HRO side, do you feel there is inflation coming in, in terms of expense or, whether it's salaries for the technology developers or other aspects, where you're seeing higher spend rate at our end?

Ashish Johri: Yes. So Purab, over the last couple of years, the entire industry, including us, we have seen technology salaries go up fairly meaningfully. But over the last quarter and maybe a little more than that, some of that inflation and salary seems to have tempered down. I'm also hearing from industry sources, that IT hiring is also bringing to slow down. So perhaps the salaries are also reflecting that. So right now, yes, over the last couple of years, salaries have gone up, but the demands are tapering down a little bit.

Purab Gujar: So that was on the business front. On the merger front, I had a question or two. I'll start with this, if we see, I mean, I'm seeing more shareholder complaints on the different platforms of the regulators, and I wonder if most of them or all of them are related to the merger? And has kind of the Board discussed the issues raised around the merger, and can you help me with some visibility on what's happening at the board level and the company?

P. Raghunath: So Purab, there have been complaints from minority shareholders on various platforms, as you mentioned, and we have taken cognizance at the Board level. There are -- obviously, it is probably not a problem for us to talk about this more in detail, but that's something that will go through the process as part of the merger, and definitely, the shareholders will have a proper forum to have a discussion on this and take this forward. But at this stage, there's not enough that as management, we can comment on the particular process here.

Purab Gujar: And any update on the timelines of the merger, because the original timeline is spoken, and what we've seen in the progress, what is the exact current status of the merger, and what are the revised timelines that you are seeing, right?

P. Raghunath: Yes. So obviously, as far as the company is concerned, the timeline are very heavily dependent on external stakeholders. We're still waiting the nod from SEBI. And any calendar that we put now can only be after the SEBI approval company. In terms next steps, that is after SEBI, then there is the NCLT, then there is a company, need for AGM and stuff like that, but at this stage, we don't have a calendar as we have not got a SEBI approval yet.

Purab Gujar: I believe I lost a few words there. Did you say that we are currently waiting for a nod from SEBI, is that right?

P. Raghunath: Correct.

Purab Gujar: I think I have a thing or two, but I will then join the queue again.

Moderator: Thank you. We have the next question from the line of Sugandhi Sud from InCred Asset Management. Please go ahead.

Sugandhi Sud: I wanted to understand in HRO, given the kind of higher margins that the HRO, the compliance business has, and you noted that there has been some additional headcount. Can we expect some improvement in margins going forward, especially given the high interest net revenue comes through. And if you could also give a sense of how the new platform and the SaaS business would play out, in terms of the profitability relative to the traditional business in HRO? That's my first question.

Ashish Johri: Sure. So, for the near term, near term being next six months, nine months, I don't expect margins in HRO to vary too much from what we've seen this quarter, simply because we are investing a fair bit in automation and IT resources and operation resources, given the orders in book that we have. Some of these investments will succeed the revenue, hence, muting the EBITDA for the next six months at least. Post that, yes, I would expect margins to go up, as we release some of these resources and start harvesting the benefits of all these automation initiatives, and I expect the margins to go back to -- the historical margins we have seen in this business. We basically go back to the historical mean in the HRO business.

In terms of the new platform and impact of those platforms on EBITDA, right now, that's -- these platforms that we're building, have higher levels of automation. So I would expect better margins in those platforms, but it is very difficult to say right now. The critical metric those platforms should trigger, is revenue growth as opposed to profit growth, as opposed to margin growth.

Sugandhi Sud: Sure. And also, your HRO business, if I remember correctly, large chunk, historically you have reported the verticals from IT services. So what are you seeing there in terms of -- what you're seeing across IT companies, is a moderation in the headcount addition or the whole supply situation settling down a little bit. So, is that meaningful for you, and what is the outlook there?

Ashish Johri: Yes. So over the last six months, we are indeed seeing headcount growth with existing customers, especially in IT, ITes, logistics and a few different other verticals. The growth has tempered down substantially compared to the historical. So yes, that is an ongoing trend, that comes about in the last four months to six months.

Sugandhi Sud: Sure. And just a quick book-keeping question, you've mentioned that there are some ForEx gains. If you could quantify that, and if there's any impact on the EBITDA? How much -- if that is getting -- if there any other one-offs in EBITDA? And what is the expected tax rate for the current year?

P. Raghunath: So there is not much of a benefit on the EBITDA in terms of ForEx. The primary reason being that, while the rupee has depreciated against the dollar, the rupee has also appreciated against peso. And for Allsec, Manila is a large subsidiary, and the range that we're kind of giving on dollar losses on the translation from peso to INR too, as EBITDA to that extent is more or less comparable with previous quarter. The benefit that we've got is moreon the dollar cash that we had, and the reinstatement and that goes also below the line below EBITDA and other income. So that's the point on FX. What was your other question?

Sugandhi Sud: So could you quantify that number, without the EBITDA line?

P. Raghunath: I don't have the number with me currently, but I can send it out you separately.

Sugandhi Sud: Sure. And the second question was around effective tax rate?

P. Raghunath: Yes, so the effective tax rate. So I think we don't -- depending on the mix between India and Manila. Manila has a lower tax at 5%, while India is at 25%. So the mix involved takes it to 19%, 19.5%, and that's where we probably be.

Moderator: We have the next question the line of Raghuram NS from Eurind Ventures. Please go ahead.

Raghuram NS: I had obviously -- I'll take the same kind of, you can say, set of questions like how Ashish mentioned from a business, you can say, DBS and HRO perspective. I'll start with DBS. Obviously, one can see from your PPT, that there is significant growth in the international headcount numbers. Whereas the volume growth or the revenue growth is still to -- maybe get reflected in terms of what we have already seen. That something, that gets explained by the fact that you see larger volume growth and business growth coming in, in the next few quarters and you are hiring in anticipation of that or is it something else?

P. Raghunath: Yes. So let me take that. So some of that is volume for growth that we anticipate. But mostly, it's also growth in the existing business. And depending on which business the growth company, we would have a per-revenue, per-employee difference here. I would say that -- I mean, that you can see, our recurring revenue for this year in what will translate into revenue for the next couple of quarters. And obviously, will build some capacity for that. But the remaining is all mixed change in our existing portfolio.

Raghuram NS: Okay. Obviously, as a corollary to that, one can see it's going about -- the absolute numbers are going about 1,300 to – approaching the 1,400 kind of number. We are -- the capacity that was in Manila at least, was about 600 seats. Is this something that now is making -- is it very clear that there has to be a capacity addition there, or what's the plan for that?

P. Raghunath: So we are very close to using our space in Manila. So we will be looking at some expansion in the next six months for sure.

Ashish Johri We are already evaluating a few options. We have a few months to make that call.

Raghuram NS: On a constant currency basis, how would you have -- obviously, there has been huge movement in currency, and that is something that my previous question, investor was also alluding to. On a constant currency basis, how would this have looked, if it had been -- currency kind of fluctuations were not there. In terms of -- I'm speaking about DBS only, because that's where the significant revenue growth has happened last quarter?

P. Raghunath: So I would say Raghu and if you note, I was trying to explain earlier also is that. The large chunk of my revenue for DBS contribution comes from Manila. And what has happened is that, while dollar has appreciated in terms of PHP. The PHP has depreciated against INR. So finally, when you bring it down to the INR term, the impact on EBITDA is definitely very significant. And on revenue, probably because of the dollar has appreciated by around 10%, the impact in revenue will 3%, 3.5%. There are two currency parts, and both are moving in different directions.

Raghuram NS: That brings me to the next question. Obviously, now one is seeing pretty significant or very good capacity utilization from both Manila and India side. So what we have seen previously is that, at that kind of good capacity utilization, the EBITDA levels for DBS would be at around 14% to 15%. They are still maybe hovering around the 13% kind of level. So is it a fair assumption to do, saying that, now that we are at these kind of levels, it will like, what Ashish also mentioned on the HRO side. Obviously, there is a mean level of EBITDA for DBS also, which got affected due to various factors, COVID-related, capacity utilization related. But would it be a fair statement to say that, it will go back to the 15% kind of mean level?

P. Raghunath: So 12% to 15% is there, the DBS will be Raghu, and that is definitely an aspirational one for us to be -- and depending on how both businesses perform. So a lot of -- some of the allocated expenses will play, based on which revenue grows faster, We end up picking up slightly higher charge. But yes, 12-15% is always where we look at for our DBS businesses.

Raghuram NS: Moving on to the HRO business. Obviously, Mahesh also mentioned that, this is one of the highest ever quarterly ACV additions. Is this something that is sustainable going forward, or is this something that is just a one-off kind of an event? How do you see this, how do you see the market evolving?

Ashish Johri: Raghu, we expect this run rate to continue, this is not one-off, because our pipeline and the deals approaching closure, etcetera, continues to be at sustained high levels. So this is -- I think this is not a one-off, the trajectory and velocity should continue for some more time.

Raghuram NS: The second thing was on the impact of Simpliance now becoming a part of Aparajitha Group. Obviously, that has been announced this quarter. So now Simpliance -- Allsec obviously used to work with Simpliance in various I'm sure engagements. Now it becomes a complete part of Aparajitha. So how do you see this impacting the -- you can say, how Allsec presents itself to clients?

Ashish Johri: Raghu, Simpliance always was a third-party vendor to us, while they were a sister company, but we've always treated them as another service provider to us, with an arm's length commission contract, driven by market pricing. So I don't expect anything to change on that front. They continue to be a service provider and the technology backbone for the compliance business. So I don't expect anything to change as a result of it. If there are any ups and downs, we have -- we'll evaluate options and strategies when we get to that. But as of now, nothing changes.

Raghuram NS: So you have enough other technology service providers, who will be able to service that kind of part of the client requirement?

Ashish Johri: Yes. I mean there are enough technology providers in the market.

Raghuram NS: The third question on that was, obviously, you have mentioned that the Smartpay that is SP4 product development pipeline -- timeline, marketing is to start in two months' time. So I would imagine the product development must be more or less at a very advanced stage now. Is it something that -- there are no real uncertainties around the product development and the rollout now? Is it something that we have reached that kind of state now?

Ashish Johri: Yes. So we expect to start onboarding new customers probably in the Jan-Feb timeframe, followed by a full market launch. A soft launch probably, marketing launch probably in Jan-Feb, and a more intensive marketing campaign by March or so. We already have a customer running on this platform and we expect to take that customer live with an existing customer and we expect to take that customer live on this platform, probably by January.

So as you can imagine, the platform is in a pretty advanced stage of development at this point. Essentially what we are working on now is, the peripheral development around this platform. The core platform itself is approaching closure.

Raghuram NS: So is this client that you have obviously started a beta trial or whatever you call it, is that a large customer, or is it one of your medium-sized kind of customers?

Ashish Johri: It's a medium-sized customer, but we've also tested one of our larger customers over the last quarter. But at this point, that large customer will pause more testing, simply because it just distracts from assessing the platform capability. But we have tested both with -- at large volumes and with this mid-sized customer.

Raghuram NS: So in summary, the uncertainty around the product launch is no longer really there -- it's a matter of time now?

Ashish Johri: It's not.

Raghuram NS: Okay. That brings me to the end of the HRO thing also. Overall, a couple of questions for you, Raghunath, on the balance sheet items. You've obviously alluded to it before, but I just wanted to bring up the specific details. You have shown higher unrealized ForEx gain of INR 549 lakhs in the cash flow statement. So is this something that's going to come in to the P&L over the next quarter or two? Or how is it going to impact, where will it start showing up in the P&L?

P. Raghunath: No, it's already in the P&L, Raghu. That goes into the other income for the half year. This is when you say under laying cash flow, it's basically coming out of the P&L.

Raghuram NS: So that's why the other income has shown an increase? And the second question was on the higher current liabilities or straight rate payable. That's a significant increase that you guys have shown. Is that something that is related to obviously the number of headcount growth or is there something else?

P. Raghunath: Absolutely. You are right. So with DBS revenue growing, you have that many headcount being added and that goes as the payable at the end of the quarter.

Raghuram NS: Okay. So that obviously adds to the thing that you guys are preparing for growth coming in.

Moderator: Thank you. We have the next in the line of Nishit from CWC. Please go ahead.

Nishit: Thanks for the opportunity, and I think the numbers are really good. I had a couple of questions on the HRO side. Just wanted to understand, is my understanding right? So basically, we had around INR 28 crores of revenue in Q2 last year, and we have around INR 35 crores, right, wherein our compliance business has been fairly flattish, and we've had like 15% growth in the HRO business? I just wanted to understand, how much of the HRO business growth would be from existing clients versus new customers that you would have won in the last 12 months?

Ashish Johri: Nishit, in this quarter, most of the revenue growth has come from new customers. The headcount growth with existing customers is muted compared to historical. Historically, we have seen anywhere seen 7% to 10% headcount growth in existing customers. This year, we have not seen that kind of growth numbers. It seems to be more in the 2% to 3% so far. So most of our growth has actually come from new customers.

Nishit: Has there been any churn that we've witnessed in older customers? Has that resulted because of it, or because IT would have added customers and stuff like that? Employees would have gotten added there. So it's not because the churn is or was there any pricing compression that we have taken there?

Ashish Johri: No. So we've had no churn nor have we had any meaningful pricing concession. At this point, it is purely driven by headcount growth from existing customers being muted, whether it is an industry trend or whether it is very specific to a few different customers, I can't comment on that, but it is largely -- we haven't seen any customer churn or taxing concession.

Nishit: Fair enough. And the other thing I wanted to understand is, in the last 12 months, we've added roughly INR 20 crores plus worth of ACV. And we've added 165-odd new clients, right, in the last 12 months. But our revenue to that extent in HRO has only grown by -- let's say, so if we've added….

Nishit Rathi: Fair enough. And the other thing I wanted to understand is, in the last 12 months, we've added roughly INR 20 crores plus worth of ACV, right? And we've added 165-odd new clients right, in the last 12 months, right? But our revenue to that extent in HRO has only grown by -- let's say, so if we've added INR 20 crores plus, I should have added INR 5 crores plus revenue. So there is that lead lag. How much time does that lead lag get addressed? When you've added a new customer with a new ACV, generally, how much time does that take for it to kind of fully show up in your revenues?

Ashish Johri: Historically, it has taken about six months from when we announced the win to when revenue starts coming in. There is roughly three to four months of commission and give or take a few months for commercial closure et cetera. But over the last couple of years, these timelines have stretched initially because of COVID, and we are still feeling a little bit of a lag. The time lines right now have -- are probably running nine months at this point. That's number 1. Number 2 is, of course, given our win book also, we have a fairly substantial backlog of commissions that we are currently working through.

Nishit Rathi: So that is very, very exciting, actually, Ashish, because what you're basically saying is the last three, four months where you've accelerated this ACV win, the impact of this is about to come in the future quarters, right, if my understanding is correct?

Ashish Johri: Yes.

Nishit Rathi: Basically, that gives you much greater visibility going into the next half stuff, right, because you've deals in the back, which is now more of implementation out there.

Ashish Johri: Yes, that's right.

Nishit Rathi: That is a very good to hear. The other thing is, historically, last four quarters, you've been winning about 40-odd deals, right? But the ACV has been around INR 4 crores odd. This quarter seems to be the same 40 odd deals, but close to INR 10 crores of ACV. That's like -- it's almost more than double of whatever you've done in the last five quarters, right? What really changed out here? And how do you see that? It seems like you've landed some really big clients in this.

Ashish Johri: Yes, there are a few large deals in this, but at the same time, I also see expansion of our new closure and the total pipeline as well. So yes this quarter, there will be one-off compared to history, but going forward, the prospects are bright.

Nishit Rathi: And I know in the last question, you told Raghu, that you think that you could maintain the pace. But my question here is, you've added sales force and you're launching two new -- an upgraded version of your older platform and you're launching the SaaS platform. So is it fair for us to assume that both the number of clients one and the ACV per customers, could actually see a substantial acceleration from what you've done in Q2? Is that a fair ask?

Ashish Johri: If your question is, do we see deal sizes going up in the future, it's tough to comment on that compared to where we are. See, in the last six months our deal sizes have indeed gone up compared to history. But will they go up from here, it's a little difficult to say. I would expect them to remain average deal size to remain as it is now. At least in the near term.

Nishit Rathi: At the Q2 level or what you've done historically on an average of the last...

Ashish Johri: At the Q2 level.

Nishit Rathi: So even that is a massive acceleration, and the number of wins because of all the stuff that is coming through, you could actually see an acceleration from the 40-odd clients that you're adding per quarter, that could go up, right? That should logically go up.

Ashish Johri: Yes. Perhaps, but difficult to say.

Nishit Rathi: Which is fair, I understand. I'm just trying to -- I'm not asking for a guidance, I'm just trying to logically build mental frameworks, wherein we have added sales force, we have added firepower in terms of new products, and we are seeing good momentum out here. So you are saying that this momentum should just accelerate from here on. It's difficult to quantify how much, but that is the direction that we should be thinking in, right? That's the way it is.

Ashish Johri: Yes.

Nishit Rathi: And is this share win from other customers, or are we finally starting to see -- because this was in one of the calls, you had shared that when the market goes through a massive disruption that we've seen during COVID, a lot of companies evaluate and the older practices get relooked at, right? So are you seeing some of that happen, or is it primarily share win from other competitors, or is it like you're starting to see new to outsourcing customers come to the fray out here?

Ashish Johri: Tough to say, Nishit bhai. I would say the current deals are 50-50. Half of them are slightly under half of them would be new to the market customers. Slightly more than half will be wins away from competition.

Nishit Rathi: And what was this number a year back, Ashish? Was it also 50-50, or was it a lot more towards new billing from competitors?

Ashish Johri: It's not much different from what we've seen in the last couple of years.

Nishit Rathi: Okay. It's similar to whatever it is, 50-50.

Moderator: Thank you. We have the next question the line of Kunal Shah, an investor. Please go ahead.

Kunal Shah: So I wanted to ask regarding the share exchange thing between Allsec and Quess, don't you think it is not fair for Allsec holders?

P. Raghunath: Kunal, that's something that we can't comment on. The process is ongoing. We've had feedback coming from the shareholders, and they are being looked at. But that's not something that at this moment, I comment on.

Moderator: Thank you. We have the next question from the line of Purab Uday Gujar from Cameo. Please go ahead.

Purab Gujar: Yes. I'm back again. Ashish, I wanted to ask a few things on HRO and particularly on trying to understand the way to look at the business. Of course, ACV is a good lead indicator, and we are seeing the momentum, when the previous investor had the answer to his question helps in understanding that. How do you -- personally, what do you track within the HRO business, as your main indicator? I wonder does the pay slip volume, although that might be a slightly lag indicator, but is that the main barometer on the HRO side?

Ashish Johri: Yes, it is, but ACV I would preach as a better lead indicator, because in the pay slip you get deals of various sizes, hence at many price points coming in. So those things get very difficult to defer just you look at the basis.

Purab Gujar: And practically, all the engagement on HRO side will obviously have a pay slip component. Is that a fair assumption?

Ashish Johri: Sorry, say again?

Purab Gujar: All the engagements on the HRO side, they will always have a pay slip component, right?

Ashish Johri: Right. Yes.

Raghuram N.S.: So what Ashish alluded to was like this. So if someone is taking only a pure payroll for this, the per employee per month cost will be different to someone who is probably having a mix of payroll compliance, HRMS and then HRMS is one portion of HRMS. So that's the reason why pure payroll why it's an indication of growth, will not necessarily be a one-week metric for you to look at overall group. I think that is what we were looking at. As far as the absolute revenue is concerned, is more important to monitor from a group perspective. Which is why ACV is a better indicator for us.

Purab Gujar: My next question is around understanding the product suite. I believe we -- of course, there's a SaaS platform, and we have enterprise customers. I remember SME platform being spoken about. And currently, we are discussing SmartPay being -- we are beta testing it and we're about to launch. Can you help us break down what the product suite looks like, in terms of market segments, is -- we have a separate one for SME and a separate one for enterprise? How have you structured it? And what SmartPay in itself is a complete suite or it's a complete part of the pay slip suite or is there other components to payroll processing in SmartPay?

Ashish Johri: Purab, historically, we have two different products. There is SmartHR and then there is SmartPay. SmartPay is a payroll engine and SmartHR is the everything other than payroll from an HR tech perspective. Both our customer base and our business is large enterprise-centric and that doesn't change. Now we are launching two different products. Both of those are replacement for the two products that I just spoke of. So, we are rebuilding our payroll engine and that's what will -- even beta testing right now.

And then the HRMS as well will come online in the next six, nine months or so. Both the new products are SaaS-oriented, modern tech stack, et cetera. So, these will replace the existing products. And the idea is that it will help us accelerate the revenue momentum. And of course, the automation levels are higher in both. So, probably cost may also see some reduction.

Purab Gujar: And my comment on the SME platform, is that misplaced or did we have a plan that we changed now?

Ashish Johri: So, the HRMS product that I just spoke of that we are building, it started off as an SME product, but we ran betas last year on that product. And the economics for the micro and midsized SME segment is not very encouraging. So, we pivoted the product into a complete enterprise solution. But the way we have architected this product, it can cater to customers of any size. But that said, from a business perspective, we -- given the results of the beta, we are unlikely in the near term to go into the micro and mid SME segment.

Purab Gujar: One specific question on the cash side. I believe when I compare the two balance sheets, the standalone versus the consolidated, I see that we have perhaps on a cash and cash equivalency, we have around INR 37 crores in India, which makes me think that the remaining is perhaps sitting in Manila, right, perhaps INR 65 crores, INR 70 crores. Wanted to understand whether we continue to hold the cash there? Or do we plan to bring it back? Are there CapEx plans in Manila? So, some sense on the utilization of India versus Manila?

P. Raghunath: So, apart from INR 37 crores of cash, there's also mutual funds that's in India, probably around INR 50 crores. So that's around 88 crores in Manila So, our plan always in Manila to try and bring the cash back into India to keep the cash in one fleet. Our CapEx requirement in Manila, it can very easily be funded in three months or six months of cash generation in Manila.

Purab Gujar: So fundamentally, we plan to bring the cash from Manila back to now India?

P. Raghunath: And there is also some legal requirement there on retention of money and stuff like that in Manila as well. So, one of which requires us to bring cash at various points of time. So, we will tell them and try and bring them into India.

Moderator: Thank you. Due to time constraints, we take the last question from the line of Shrey Loonker from Motilal Oswal AMC. Please go ahead.

Shrey Loonker: Compliments to Ashish and Raghu for a good quarter. So, just a couple of questions. One was, we plan to launch the SmartPay, SmartHR. Ashish, a question to you. Do you think the hindsight benefit, do you think we are late in launching this? Or do you think the market remains still very prime for us to capturing market share, given how hotly contested and devoid of economic this sector may be at that level?

Ashish Johri: Shrey, I think we are in time. So, while the market has been very hotly contested, but if you look at the players who came into the market over the last few years and although we see funding – funded players that came in, there's very few of them actually new intricacies of the business. So we in the last couple of years have seen cycles where we have taken over some customers from some of those, so the maturity levels with some of those players is not as high as what we have for the large enterprise market. Those perhaps may be more suited to the SME and the micro-SME segment, which is where we don't intend to play at all. But in the large enterprise segment, I don't think we are late. Competition will come and go and these are just business cycles. I don't see any systematic threat in the large enterprise market for us.

Shrey Loonker: And Ashish, we've always struggled to kind of size this industry for ourselves given that for the next foreseeable future, we will remain a more large and mid-entity addressable opportunity and is there anything that you can incrementally help? I know this is a question I've been asking for long now. But is there anything incremental that you can help us to size the penetration level and nuance as to how the conversations are changing towards outsourcing and what kind of feedbacks do you get? And why is it still such a small industry in a country which is digitally so otherwise advanced?

Ashish Johri: Shrey, so, I'm not sure I can help you on today's call with sizing of the industry perhaps. We and the industry need a little more work to answer that question. So, I'm not sure I can give out any numbers on that yet. We, on the Indian market, look, the Indian market historically has been where payroll has been enhanced. All of that is beginning to change. So, they are new to the industry customers that we tend to see now. It is not where we would want it to be. But it is beginning to happen. It's a slow turn. Our trend is of course, you got to remember, for the MNC market, some of the market gets taken by the ERP players. That's non-payroll players, etcetera come in. So that's the reason why this industry has been smallish compared to where it should be. But that could hopefully change over the times to come.

Shrey Loonker: But any light that you can throw Ashish, on how the business nuance has changed pre-COVID, post-COVID? How the conversations have changed? Is it still a CHRO, who you talk to in an organization? Or having a conversation at the CEO level has started happening given that HR has become -- it's high attrition, high churn, high volatility in the business environment? What triggers outsourcing in your view?

Ashish Johri: So, the conversation in the industry, nothing has changed in terms of the buyer compared to history. 50% of the buyers tend to be CHROs, another 50% tend to be the CFO organization. So, that itself has not changed. But I do see more demand for higher automation. I see more demand for higher employee experience and better UI/UX. And I also compare to maybe three, four years ago, perhaps it is very difficult to pinpoint this, but perhaps we may be seeing more new-to-industry customers, may be starting to come in. It's very difficult to say that to certainty. But those are the three things, I would say.

Shrey Loonker: The other conversation that I joined in a bit late to the call. But some part of the response, which I'm just trying to put it all together, is that at one point, at one instance, you did mention that the SSG or the employee growth from our existing customers is slowing down to 2% to 3% and yet we see you clocking high ACV in the quarter? Could you just help us put this puzzle together, because how much of this because this phenomenon of low SSG, is it only IT industry? Or is it across the industry that you're seeing, because the data that we see from Naukri and the Monster professional sometimes, we do not see such broad-based slowdown except for the IT industry. So, could you just give us some sense of how broad-based is this? And if it is restricted to a few industries, then which are those industries and how much do they contribute to us?

Ashish Johri: So, the headcount -- tempering of the headcount growth, we see it largely coming from the IT/ITES segment and logistics. Now is that an industry phenomena or is it a phenomena restricted to a few customers of Allsec? I'm not very sure of that yet. It is too early to call it a trend just yet. We have to observe maybe another quarter or so and look at other data as well. So, I don't know if this is a industry slowdown or slowdown of a few customers, but it is -- right now, it is logistics and IT/ITES, is where I see it.

Shrey Loonker: And these two industry clusters would form what percentage of revenues for us in the HR, pure HR?

Ashish Johri: Actually, I don't have the number right on the back. We can get back to you on that.

Shrey Loonker: And once we have done with the launch pipeline of Smartpay and SmartHR, the free cash flow conversion should look up, right, given that now the CapEx requirement will be broadly delve with. So, sometimes post Q2 next year, the free cash flow conversions, ideally, how do you think about free cash flow conversions from a longer-term perspective not from the next 12 months perspective?

P. Raghunath: So I don't see a major difference in OCF. I'm presuming you are talking about OCF or you are talking about net cash addition? Net cash addition? Incremental will probably go up by maybe

INR 1.5 crores, INR 2 crores per quarter, because that's what we are currently burning on the product development. So I don't see a major change in net cash over the next year, year and a half.

Shrey Loonker: But did I hear it right that on an incremental basis, you are aiming at 100% dividend pay-out of incremental cash flows?

P. Raghunath: No, no. I'm saying I have a flexibility, because currently my dividend policy is with the board. Management does not decide that.

Shrey Loonker: And just the last question, Ashish. There's a lot coming through in terms of transitions or converting of these ACVs, the migrations and these two product launches over the next six months. Just wanted to kind of understand, do you think -- do you feel confident in the bandwidth and the capacity in the organization is there to -- because just a lot happening in the next 6 to 12 months for us. Do you think from a bandwidth perspective, you feel confident that you have now a team which you probably or the army that you would desire?

Ashish Johri: Yes, Shrey, I'm confident. I earlier spoke of actually pulling forward a lot of our HRO hiring. So, we've hired in anticipation of all of this growth coming in. I feel fairly confident.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Ashish Johri for closing comments.

Ashish Johri: I'd like to thank all of you for your faith in the company and faith in the management and the time that you gave us today. These are obviously exciting times for Allsec. While we have done well in the last year and plus, we are also excited by what's to come next in both businesses, DBS and HRO. With a host of product launches in the next six months and new customers in DBS coming online, we are excited about where we are. Thank you so much for your time. Thanks, everyone. Take care.

Moderator: Thank you. On behalf of Anand Rathi Share and Stock Brokers, that concludes this conference. Thank you for joining us and you may now disconnect your lines.