"Allsec Technologies Limited
Q4 FY2021 Earnings Conference Call"

May 31, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 earnings conference call of Allsec Technologies Limited hosted by IIFL Capital Limited. We have with us today from the management 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Johri for his opening remarks. Thank you and over to you Sir.

Ashish Johri: Thank you. Good afternoon everyone and thank you for joining our earnings call today. In these unprecedented and tough times, I hope each of you continues to stay healthy and safe. Coming to the agenda for today, the results and 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 the annual report. I will now start with a brief overview of the financial performance followed by key business updates post which we will be happy to take your questions.

Starting with the financial update, we have achieved revenue of Rs.73.5 Crores during the quarter, a growth of around 2% over Q3 and Rs.20.8 Crores in operating margin, which is a growth of 4% quarter-on-quarter and 17% higher year-on-year. Our net profit was at Rs.13.7 Crores, which is also a 55% growth over the previous quarter. For the full year, we have achieved a revenue of Rs.276.7 Crores, 6% lower than previous year primarily due to COVID impact in the DBS business in Q1 of FY2021. Our operating margin for the year was down 4% as opposed to the 6% revenue in fact it was on 4% at Rs.75.4 Crores against Rs.76.3 Crores in FY2020. This is a result of strong operational efficiencies that we have garnered and achieved over this year.

On business updates I will kick things off by summarizing 8 key themes and events for Allsec. Number one – improving topline growth in DBS North America continues to be a focus. In this challenging environment we continue the focus in growing our topline in DBS North America. The international business has shown positive signs of growth with multiple customer wins in North American market in Q4 and a stronger pipeline going into Q1 FY2022. In FY2021, we also had around Rs.10 Crores of ACV wins that came in late FY2021 that helped offset other COVID-related volume degrowth for the existing customers. These wins in the coming financial year should also start providing a full year impact and boost our FY2022 numbers.

Number two – HRO sales; our HRO pipeline and win rates are at historical highs positioning us an industry leader in the large enterprise HRO market in FY2021. In spite of COVID, our revenue grew by 7%. This is an environment where same customer employee headcount had shrunk by 3% to 4% by Q3. In a normal year you tend to see 6% to 7% growth, so not only did growth not materialize, instead we saw 3% to 4% shrinkage in employee headcount by Q3 and in spite of that environment, we grew our revenues by 7%.

Number three - increased wins and stronger pipeline in DBS North America is driven not only by a stronger sales team but also a stronger suite of offerings driven by alliances for digital solutions that we have worked hard at over the last four to five months and also leveraging the digital solutions that Quess and Quess group has across the board. We have also ramped up our marketing and branding spends in North America and are seeing good traction in terms of a stronger pipeline.

Number four – our cross sell initiatives are also paying traction, we have added around Rs.2.5 Crores in ACV cross selling through our existing HRO compliance customers and Quess customers and we continue to pursue this channel more vigorously in the coming quarters.

Number five – HRO platform enhancement and SAAS product. We had announced investments into several landmark initiatives in the HRO business. We are making significant strategic investments in modernizing our existing enterprise platforms. We have also launched an exciting initiative to create a market-leading SME product that will help the company grow quicker in the coming years. This product is now in beta testing over the last 15-20 days, this is in beta testing with friendly customers and we can expect to continue expanding the beta program over the next six months culminating in a market release by the end of this calendar year.

Number six – our cash positions and collections have improved substantially. Our historical DSOs have always been robust, and we have improved upon them further. Our current DSOs are better than pre-COVID level DSOs, down at 51 days compared to the 56 days in March 2020. Cash flow from operations stood at Rs.25 Crores for the quarter and Rs.70 Crores for the full year representing strong cash generation in a very volatile year. EBITDA to OCF was at 106% for the year as compared to 82% in FY2020, once again reiterating the strong collection focus and the working capital management done by the company.

Number seven - cost optimization; this is an area of most importance for us and we constantly look for opportunities to reduce costs where relevant while we invest in our growth. We have reduced our indirect costs by 11% over Q1, which translates to savings of around Rs.80 to Rs.90 lakhs per quarter. We have also expanded our HRO EBIT margins by almost 590 bps driven by digital innovation and automation.

Finally, number eight – we declared a dividend of Rs.15 per share for FY2021 in April and after the Q4 FY2021 financials were published. Total cash outflow for this was around Rs.22.86 Crores, this decision of dividend was driven by a review of a cash position, the cash needs over the coming year, and keeping our shareholder commitments in mind.

I will move on to the more detailed business segment performance now, I will start with the HRO business. The HRO business continues to perform well to end the quarter at revenues of Rs.26.4 Crores, which is a growth of 9% over the previous quarter. We added 27 new customers and more than 85000 pay slips during the quarter. Our EBIT in this segment has grown by almost 6% over the last year. We continue to invest significantly in digital innovation in this business, which is driving both revenues and margin improvements. We find a lot of our HRMS and leave, time, attendance solutions are beginning to grow very, very quickly. This business currently has a high pipeline and our win rates are also at historical highs. We believe our growth rate which was lower due to COVID will not only be back to pre-COVID level but we should be comfortably over.

I would also like to provide some updates on couple of key initiatives in this business taken by us. Firstly, the payroll platform modernization program is progressing as per schedule, we intend to upgrade the platform to the latest technologies to bring down the cost of ownership and provide a best-in-class user experience and also open up different lines of revenues for us with our customers. Key milestones have been achieved and we expect to start onboarding new customers into this platform by the end of this year. The program remains on track both on schedule and on budget. We also are making good progress on building a SAAS based HRMS platform for the SME segment, the product is ready and in currently beta testing with friendly customers and we aim to perfectly be product market fit over the next six months with a market launch tentatively by the end of this calendar year.

I will now move on to the digital business services. The DBS business was the most affected by the COVID pandemic in FY2021 with our revenues in Q1 dropping by 40% over Q4 FY2020 primarily from the domestic business, which dropped by 39%; however, as you may have seen in the performance of this business over the last three quarters we have not only bounced back but we have ended the year almost on par with pre-COVID levels of Q3 and Q4 FY2020. Our DBS domestic business experienced a sharp 39% drop a year ago due to COVID lockdown but over the year has recovered handsomely and we have ended Q4 strongly. Our workforce rose to the occasions through the last 12 months and we deployed several cloud solutions – dialers, CRMs and cloud desktop to ensure continuity of service and also to drive new wins through client referrals. This business however continues to be subject to the pandemic situation in the country and is likely to see some drops in volume in Q1 that we expect to recover quickly in Q2. On the North American business, which is 43% of overall Allsec revenue, I am happy to state that we have two key events in this geography towards the end of Q4 FY2021 and we have a larger pipeline of accounts as we head into FY2022. We also expect volumes in North America DBS with our existing BFSI customers to start coming back to pre-COVID levels in Q2 FY2022. Our Manila site has reacted well to the situation where we have 100% of a workforce operational either from office or working from home within a month of the lockdown a year ago. Our cloud solutions that we deployed in the international business have been instrumental not only in maintaining this business but have also yielded wins for us in this year. We are building a strong pipeline of growth over some of these solutions. I would like to close now by thanking all of you for your support and for being here today. We are open to taking questions now. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jayesh Shah from OHM Portfolio Equi Research. Please go ahead.

Jayesh Shah: Congrats for a good set of numbers and the recovery that you have shown in such time, can you give some idea as to what is the sustainable run rate in both the businesses and the outlook going forward and the second question is once we are happy to see the dividend I thought we were looking to preserve cash to do acquisition through this entity so any change in plans here?

Ashish Johri: I will take first part of the question and then also direct it to Raghu to add any comments. See over Q3 and Q4 of last financial year we have already hit steady state, especially Q4, I think all the pandemic related impacts that we saw early in the year they have been reversed and we have hit a steady run rate as steady as it can be imagined, these are very, very uncertain times so it is very difficult to define what normal looks like but Q4 typifies what can be called steady. From here on the growth engines in each of the businesses and DBS and HRO should start taking us to new levels, but by and large all our efforts of coming back to normal levels, Q4, I would say, is the steady run rate. In terms of the cash position so we continue to be on the lookout for acquisitions as and when they come up and I see if something attractive comes up I do not see any change in our ability to execute those transactions. Raghu did you want to add any comments.

Raghunath P: No, I think that is fine Ashish and Jayesh thanks for that question. I think the dividend that we declared was done by taking into account in terms of available cash and cash generated during the year so we closed the year almost at Rs.200 Crores so with that in mind and with the targets that we were looking at we thought we should also reward the shareholders so that is how this dividend was arrived at.

Jayesh Shah: Thanks for that clarification. I think in the previous calls you had mentioned about some active dialogue going on regarding acquisitions so now do I understand that there is nothing on the table as of now. You are obviously open to opportunities but there are no active discussions going on?

Ashish Johri: Jayesh thanks for that question. There are active conversations very early stage conversations that are happening, I am not sure what direction they will take but we do have active opportunities that we are considering. Over the last year there have been more than one opportunity that we have looked at and declined because simply it did not fit our strategic equation.

Jayesh Shah: Okay thank you very much and best wishes. Just follow-up on your earlier reply I thought that both the businesses you have for payroll and digital DBS are essentially regular recurring annuity kind of business. Just wanted to understand how is it that you end up losing a customer or how do these things happen – is it purely because of pandemic or there would be some element of such occurrences which should be considered as natural or normal?

Ashish Johri: Jayesh most of the impact last year was not us losing customers although there are small customers that have exited but most of the impact is business volumes going down with existing customers. In North America, for instance, similar to India, there is a moratorium on collections and over the last year their telemarketing business has come to a stop so obviously those aspects of the business will come down, volumes will come down whereas some of your other area volumes may go up so that is really the issue here. It is not about customer loss.

Jayesh Shah: Will they bounce back to the pre-COVID level?

Ashish Johri: Yes, through this year we have already seen that in domestic where volumes with all our customers came back until of course couple of months ago when this current situation happened. North America, in some pockets, volumes have started to come back. The moratorium on collections still continues in North America. It is rumored to be lifted by

August; our customers have given us indications of the same that starting August those volumes should start coming back.

Jayesh Shah: How much is the collections business for us that have impacted because of this moratorium?

Ashish Johri: I do not have the specific number for you. Our DBS North America business is around 43% of the revenues and the collections probably is under 10% of that.

Jayesh Shah: Going forward what is the normal growth rate that we should be looking at from here on considering that we have looked at we have achieved some kind of stability?

Ashish Johri: Very difficult to predict what is normal given this pandemic situation continues, but I expect the DBS business to have nothing short of 15% year-on-year and the HRO business should be north of 20 – 25%. That would be a normal-ish year in my opinion.

Moderator: Thank you. I would request Mr. Shah to rejoin the queue. The next question is from the line of Shrey Loonker from Motilal Oswal AMC. Please go ahead.

Shrey Loonker: Good afternoon thank you for this call and thank you for the presentation. Just if you can help us understand the HRO business a little bit more deeply if maybe you can start with what is the lay of the land and how are our market share trending given that this sector is so new to us some education would be very helpful?

Ashish Johri: Thank you for that question. I will keep my comments a little brief. Allsec's market has always been large enterprise and the legacy has been payroll, but over the last couple of years we have provided end-to-end HRMS solutions hire-to-retire including compliance and compliance is the business that we inherited from Quess. The large enterprises tend to be anything over 2000 odd FTEs that is really the market we have played in historically although we are now making efforts to go down and serve other segments as well. This current market space tends to be more managed service given the complexity of the organization. Allsec continues to dominate this market both in terms of win rates and the solutions that we have. Win rates are very, very healthy, we feel we can compete with anyone in the industry on this purely on a merit perspective, our win rates have been very, very healthy over the last one year and pipeline of large deals also looks very, very reasonable. Based on what we know of the industry we think our market share has grown consistently over the last three years and again this industry is not very good at publishing a lot of data on its size but based on what we know we think we are in the top two, three players in the country on size at this point.

Shrey Loonker: Ashish just followup on that one. What differentiates the players above us from where we are in terms of offerings and maybe in terms of qualitative and quantitative if you can help us?

Ashish Johri: Look the difference between us and the largest is not very much at this point the difference has shrunk. ADP is probably the largest in this large enterprise market. The difference between them and us is that they have a global presence, but they started from North America, hence their North America customers their similarity and brand awareness for ADP that is the difference. Where they lose out compared to us is and we won large deals against ADP I think they are a good competitor and I do not want to denigrate them but I think we have better localized India and our country solutions they are a little deeper and functionally richer.

Shrey Loonker: The Second question was that today 70% of your EBIT comes from HRO and 30% comes from DBS I am talking about the EBIT mix so if you could just help us understand the way your vision stacks up today, how do you think this mix will kind of trend towards over a longer range I am not looking for absolute numbers I am just looking for a direction towards the mix shift?

Ashish Johri: I think first off, 70:30 is not entirely correct. I think it is more like 50 or 55:45 I think it is more in that range but that said the HRO business is a higher growth business so the mix will continue to shift towards HRO and HRO is also higher EBITDA business so the mix will continue to shift towards each other at least for the next couple of years.

Shrey Loonker: That is helpful and just the last one before I fall back in the queue is given that now passed the litmus test and we have kind of gone through a very tough phase remarkably well and given the cash position do you think it is probably an appropriate time to have a dividend policy in place?

Raghunath P: Yes, I will take that Shrey. We are working on a dividend policy and that will be up pretty soon so that is something that we can look forward to in the next quarter.

Shrey Loonker: That is appreciated. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich Wealth Management Ltd. Please go ahead.

Saurabh Ginodia: Sir good afternoon and thank you for giving me this opportunity. Sir I have couple of questions. In your opening remarks you mentioned that we have earned some business by cross selling two Quess customers I think which was in the tune of roughly Rs.2.5 Crores so just wanted to get some thoughts, are we getting any kind of help from the side of Quess with respect to marketing in US and if so what are the other areas where Quess can help us?

Ashish Johri: Sure, I will answer the question for North American then I will also come to broader areas of collaboration. In North America, we actually have a joint go-to-market plan with GTS which is Quess' technology division there the GTS business in North America is largely insurance oriented and for insurance customers both Allsec and MFX and GTS we have a joint go to market strategy selling to insurance customers it is a joint proposition that has taken. We also share we have a few common sales folks as well that we leverage and both sides both Allsec and GTS organizations know each other's offering relatively well, training has happened, etc., and there is almost a daily conversation flow that happens between the sales organizations on both sides in terms of deals, opportunities, solutions, etc., and we have also jointly created solutions specifically for insurance customers so that is on the North America side. Similar is the story on the domestic HRO side as well where we share work actively with the Quess group on cross sell initiative. There is a very formal team and function housed in Quess, which drives the cross sell activities and we collaborate on almost on a daily basis sharing news, leads, solutions, customer insights, etc., sharing leads across both sides of the table and there have been wins as well, so on the HRO side as well there is a lot of activity. Beyond just sales, there are other areas of collaboration as well. Conneqt, which is the domestic BPO business of Quess, we work very actively with them to shore up our offerings. A lot of our digital solutions are built with Conneqt expertise, so a lot of our wins now coming in North America have leveraged Conneqt's expertise and digital solutions. Also on a lot of the IT work that I spoke about our investments in our platform modernization we also used and leveraged Quess' IT wing and IT technology capabilities in lot of those investments., Most of our heavy IT projects, both the payroll platform and the SME platform, we are leveraging Quess' IT capabilities very strongly so that is a much broader view of the collaboration that we have with Quess.

Saurabh Ginodia: Okay thank you for that elaborate answer. My second question is with respect to merger with Conneqt. Mr. Ajit Isaac, in the last AGM, has been on record on the AGM by saying that Board will be coming out with some kind of clarity with respect to merger with Conneqt before March 31, 2021 so what is like development on that side?

Ashish Johri: We are not aware of any development on this merger plan, any developments in this regard as and when they happen, we will of course keep the analysts and the shareholders informed, but so far no developments yet.

Saurabh Ginodia: Where I am coming from is that because this has been an overhang on the stock valuation for quite some time so any clarity on this side will be quite useful and it could create value for minority shareholders?

Ashish Johri: I understand and that is exactly what I am telling you. There is no development; there is no further progress on this or developments on this concept so far at this point.

Saurabh Ginodia: Sir third and the last question from my side is that we have been hearing from the management for quite some time regarding this M&A so any timeline which you can share, I heard you saying that we are in active dialogue with few people for the inorganic opportunity but any timeline if you can share it would be quite helpful for us?

Ashish Johri: We continue to look actively for the right opportunity and over the last I would not say one year because of the pandemic even North America M&A market had stalled early last financial year. Over the last six months there are multiple opportunities that we have looked at and gone into deeper management conversations, and there is one that we are doing right now, but none of those have panned out simply because we could not see a fit and we chose to walk away from those opportunities. At this point it is tough to put a timeline. I hope we find something soon and within the next month we can announce something, but if wishes had wings. It is tough to give a timeline, but we actively are looking at offerings or targets especially in the insurance space.

Saurabh Ginodia: Okay and any size which we have in mind for this acquisition?

Ashish Johri: No, right now for the right opportunity we will see, we do not have any constraints like that, right now I cannot comment on that any further.

Saurabh Ginodia: Okay Sir thanks a lot for answering my questions and all the best.

Moderator: Thank you. The next question is a follow-up from the line of Jayesh Shah from OHM Portfolio Equity Research. Please go ahead.

Jayesh Shah: Thanks again for the opportunity. Hi Ashish, just to follow up on the EBITDA margin – when I look at the presentation I see that in the fourth quarter EBITDA has moved up by 400 bps but the EBIT for both the segment business remains the same so I was unable to reconcile that?

Raghunath P: I will take it that is because in Q4 we had FX gain while in the previous quarter it was FX loss so the FX gain improved the EBITDA margin for Q4, but for the business results we do not take that into account so that is why you see that delta.

Jayesh Shah: FX gain you consider at a company level rather than for a specific business?

Raghunath P: Correct because most of the FX is coming from my cash balance, which is an unrealized mark-to-market.

Jayesh Shah: Okay and overall, the current cost days is what we should say is normal cost days or it can still go up as and when you see this normalcy from COVID?

Raghunath P: So what will happen Jayesh is that we will see some costs going up as we get back to work but most of that cost will also get knocked off because we have some additional costs incurred for COVID so the current cost base should be more or less there and we will continue to work on improving on cost saving opportunities aspect.

Jayesh Shah: Right and when I look at the HRO business and when I look at the quarterly numbers and the growth that we have seen the EBIT has remained kind of in the same percentage level so is there no operating leverage or am I missing something?

Ashish Johri: EBIT kind of moving up but it comes in chunks so we had a clear moment from last year to current year so as we work on more and more projects you will see that movement coming in.

Jayesh Shah: My last question is again a follow-up based on the previous question on the Conneqt merger, while you cannot tell us on the timeline but is there any synergy or benefit by merging with Conneqt, do you all work together?

Ashish Johri: Look I am not commenting on the merger because there is no such information, only from an operating and synergies we work very actively with them, leveraging their offerings and also bringing sharing capabilities from both sides. There is very active conversation that happens, in fact we have created offerings for their customers and likewise.

Jayesh Shah: So, within the overall Quess portfolio the connection that you have is actually just with the Conneqt organization is it?

Ashish Johri: No, we have connect with pretty much the entire group of companies in Quess so on the Conneqt side I just mentioned on the GTS side North America I spoke about that earlier on the staffing business, etc., and the workforce management business we actually share opportunities, there is constant dialogue that happens almost on a daily basis sharing customer insights, sharing leads, etc., there is a very formal structure in place both in

Quess and Allsec to make that very seamless. There is a very formal structure enabling that collaboration.

Jayesh Shah: So as an outsider what I cannot further more understand is there a natural synergy or a benefit that if at all the merger happens that it has to be through Conneqt because I thought it should happen through with Quess which is another listed entity and I am not asking you to give me a specific answer it is just the thought process in terms of understanding as to how you work with Quess?

Ashish Johri: Jayesh I think that is a great point of conversation I am not sure I can comment on this but it is a great point of conversation as we get together with Quess on this.

Jayesh Shah: Okay thanks.

Moderator: Thank you. The next question is from the line of SA Narayan from Capricorn Research. Please go ahead.

SA Narayan: Thank you. At Allsec we seem to be having a glass ceiling we seem to be stuck under it we seem to be stuck in a sub Rs.300 Crores revenues for a few years now. The last time you crossed Rs.300 Crores was in March 2017 and in March 2018 what is our strategy to grow and reach a critical figure like say Rs.1000 Crores, in fact if I look down the figures I see our PAT seems to be stuck at sub Rs.60 Crores what is our medium term plan what do we have to really grow?

Ashish Johri: I think I have addressed components of the strategy, but I will recap it for you. First, the big levers in this growth and when you start talking Rs.1000 Crores number as a benchmark the biggest lever has to be on the DBS part of the business. The DBS North America strategy has to start clicking, the sales engine has to start clicking and even on that, larger deals which are more consultative rather than reactive and which are not RFP driven get shape. You need to have strong capabilities but it also requires connects with different level of organizations, you need to have connects with the analyst community in North America, you need to have connect with the VCPE firms who drive a lot of that kind of work, you need to have connects with digital solutions companies alliances with digital solutions so that you can do joint GTM so all of that ecosystem we are working on. A lot of our digital alliances are beginning to fall into place, and we are already beginning to see wins come as a result. Our analysts and VCPE connects are beginning to happen. We have had meetings and that volume of meetings should start going up over the next quarter or so that is on the North America and international DBS. On the HRO side, there are a few different levers, one is your international growth so Middle East and

Manila for us those are focus geographies, and those are levers for growth. In India, the SME segment, and that is a much longer term that is not going to happen in the next two years or so we are talking longer than that, that is another growth lever from a revenue perspective. And then just pure the bread and butter HRO business there we are already set up for larger numbers and outsized growth, I think the only thing we need to start doing more of is alliances with other folks from a channel partnership perspective and join GTM, etc., that is the thing we are going to focus on this year from an HRO perspective but from an offering perspective the ingredients are already there in the India business.

SA Narayan: Can you give me a ballpark timeframe when are we likely to reach these and someone like me has been waiting for over a decade to see this company grow I just want to know what is happening we seem to be making efforts but what is the timelines that one can think of?

Ashish Johri: Mr. Narayan unfortunately I cannot comment on the timelines and your point is very fair, it is taken and understood that we need to break out of this and we continue the way we working, the way things that we are doing and the way this business is working is markedly different from how it was run earlier, there is a lot more emphasis on reaching out in market spacing alliances, joint GTMs, etc., so the right actions are happening, on the timeline unfortunately I will not be able to comment.

SA Narayan: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Ashish Johri for closing comments.

Ashish Johri: I would like to thank everyone for being here today. It is a great Q&A session I look forward to the questions they gave us a sense for they not only validate our strategy but gave us a lot of insights into where we could do things differently, so thank you so much for those questions and insights. I hope all of you continue to stay healthy and safe. Thank you so much until next time.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purpose)

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