



“Allsec Technologies Limited  
Q2 FY '24 Earnings Conference Call”  
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**MODERATOR:** **MR. BALAJI SUBRAMANIAN – IIFL SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to Allsec Technologies Limited Q2 FY '24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Balaji Subramanian from IIFL Securities Limited.

**Balaji Subramanian:** Thank you, Malcolm. Ladies and gentlemen, good day, and thank you for joining us on the post results conference call of Allsec Technologies Limited. It's my pleasure to introduce the senior management team of Allsec, who are here with us today to discuss the results. We have with us Mr. Naozer Dalal, CEO; Mr. Gaurav Mehra, CFO; and Mr. Kushal Maheswari, Investor Relations.

We will begin the call with opening remarks by the management team. And after that, we will open the call for a Q&A session. I would now like to hand over the call to Kushal to take the proceedings forward. Thank you, and over to you, Kushal.

**Kushal Maheshwari:** Thank you, Balaji. Good evening, everyone, and thank you for joining for Allsec Q2 FY '24 Earnings Call. Any information, data and outlook shared by the management during the call which is forward-looking is subject to prevailing business conditions and government policies. All forward-looking statements are subject to economic growth or other risks faced by the company. The results and the presentation have been uploaded on our website. Please refer to slide number two of investor presentation for the safe harbor clause.

With that safe harbor, I will now handover the call to our CEO, Mr. Naozer Dalal for his opening statement.

**Naozer Dalal:** Thank you so much, Balaji and Kushal. Good evening, everyone. Thank you for joining our earnings call today. I'm looking forward to interacting with each one of you. For those who don't know me, here's a quick introduction.

It's been a privilege to lead Allsec over the last eight months. Prior to this I have been a part of the banking and process outsourcing industry with experience in excess of 33 years with leading names like Standard Chartered Bank, The Prudential Bank Office in India and the Tata Group. With my immediately just prior role being with our group company, Conneqt Business Solutions as its Deputy CEO. I have with me, Mr. Gaurav Mehra, Chief Financial Officer, who will twin with me in interacting with yourselves.

At the start, I am happy to announce that your company has declared an interim dividend of INR45.7 crores, that is INR30 per share for the current financial year.

Another key highlight for this quarter is that, we have rebranded our two lines of businesses. The digital business services is now Customer Experience Management (CXM) and Human Resources operations is Employee Experience Management (EXM).

This reflects our value-added role of providing superior experience, both to your end customers and employees via our interaction and services. We'll give you a brief business overview & update covering both our LOBs and follow it up with the detailed financial performance. Post that, we will be happy to take your questions.

So to start with some banner headlines. Q2 FY '24 revenues from operations stands at INR112 crores, up 4.5% quarter-on-quarter and 19.3% year-on-year, driven by growth in both the verticals. CXM grew by 3.9% and 18.3%, respectively and EXM by 5.8% and 21.2%, respectively. Our PAT at INR16.2 crores for the quarter is up 3% year-on-year and 2.3% quarter-on-quarter.

We added new employee records in excess of 1.3 lakhs in H1 and now process 1.3 million employee records at the end of September, remaining the clear market leader in the managed services space, continuing to be about 20% to 30% higher than competition volumes.

We have added additional seat capacity in Manila nearly doubling it. Our staff attrition has been maintained at 8.1% for quarter 2, which continues to be near best-in-class in the domestic outsourcing industry. Our cash position and collections continue to be strong. Our collections for Q2 '24 was maintained at INR111 crores in spite of one-off challenges in the US market collections.

I will now provide a progress update on the two big projects, SmartPay 4, version 4 and the new HRMS. We have been working on being key strategic initiatives. Last two quarters, we have been working hard to cross the finishing line. I'm happy to share that we have capitalized both SP4 and the new HRMS costs as on 30<sup>th</sup> September. We have completed parallel runs for our upgraded payroll engine (SP4) for a few of our strategic customers, and the results have been encouraging.

Phase I of our new HRMS platform, has crossed the milestone of user acceptance testing. We are in the process of drawing up transition plans to migrate our existing customers to SP4 over the next couple of quarters, and we'll also be approaching the market in H2 to pilot sales of the HRMS platform on a SaaS basis.

There were a couple of questions around this in the previous conference call too. This will open up a new market segment for us. Though I would like to state that profitable client acquisition would continue to be a key consideration and would drive our SaaS strategy.

We will now move to our new sales achievements. We have signed EXM sales with ACV of INR17 crores in H1 FY '24, which is up about 40% compared to the previous H2 FY '23. We have added marquee logos, including targeted conversion of competitor logos besides focusing on mining of existing accounts, including accounts acquired in FY '23. Separately, we will accelerate the focus on international EXM sales for the remainder of this financial year and into FY '25.

In CXM, we have added two new LOBs in the health care account, which we had won at the end of the last financial year and also added two new logos in Q2 with an ACV in excess of INR5 crores. You would recollect that in my last call, I have shared two key initiatives planned

for this financial year for in the EXM space. The first being increasing the ticket size of new EXM sales, the second being shortening transition time lines.

I'm happy to report that we have made good progress in both of the above goals. Our ticket size of new sales is 2.4x in Q2 as compared to what we were in Q1, being 46 lakhs in Q2. We also, as I mentioned earlier, transitioned 1.3 lakh payslips in H1 itself as against 87,000 in the whole of FY '23. Additionally, we have embarked on a journey of operational and cost efficiencies earlier in this financial year with focus on the key metric of payslips processed per employee, which has improved by 4.5% year-on-year.

All of the above has enabled us to demonstrate an uptick in the EXM segment margins by 2.6% quarter-on-quarter and 1.8% year-on-year for Q2 '24. Our CXM margin, though, has got impacted by the delinquency of a US customer under Chapter 11 during this quarter. Adjusting for this, our CXM margin too is about 0.7% higher than the previous quarter.

Coming to our operational performance. Our meeting of operational KPIs remains strong for both CXM and EXM, including being named as the best partner in some of our customers' league tables. We continue to provide value-added services to our customers, including but not limited to point automation, bundling RPA in our solutions, etc.

We again continue to receive high ratings and increasingly positive feedback on social media, Glassdoor, AmbitionBox, etcetera, a direct outcome of our continued focus on employee engagement. We also continue to encourage our employees to participate in the corporate social responsibility activities of the company.

With this, I'll now turn to the detailed financial performance, for which I will ask my colleague, Gaurav to brief you on the same. Thank you.

**Gaurav Mehra:**

Thank you, Naozer and good evening to you all. It's a pleasure to connect with you all for H1 earning updates. I will share quarterly and half yearly financial results.

To start with on the operational revenue, operational revenue for the quarter is INR112.4 crores, a growth of 19.3% year-over-year and 4.5% quarter-over-quarter. We have growth across both the verticals. CXM vertical grew by 18.3% year-over-year and 3.9% quarter-over-quarter. Our EXM business shown a growth of 21.2% year-over-year and 5.8% quarter-over-quarter. In CXM, management focus is more on the international business, which is the higher revenue margin business.

International business grew by 21.4% year-over-year and domestic business grew by 11.6% year-over-year. We had a quarterly growth of 4.6% for International business and 2.1% for domestic business. Within the EXM business, our EXM Payroll business grew by 22.5% year-over-year and 8.7% quarter-over-quarter. EXM Compliance business, which is more of a statutory compliance that business grew by 16.2% year-over-year, and we have seen a softness of 4.5% quarter-over-quarter.

Moving to the margin section, our EBITDA for the quarter stands at INR 25.4 crores, a growth of 17.4% year-over-year and 3.5% quarter-over-quarter. Our margins for the CXM business

grew by 8.8% year-over-year and 6.4% quarter-over-quarter. Our margins for EXM business grew by 28.2% year-over-year and 14.7% quarter-over-quarter.

Moving to the margins. Our PBT increased by 5.3% year-over-year and 3.9% quarter-over-quarter and PAT has grown by 2.3% year-over-year and 3% quarter-over-quarter. We have growth across both the verticals.

Now I move to the half yearly results. Revenue for H1 '24 is INR220 crores, a growth of 20.6% year-over-year basis. EBITDA for H1 '24 is INR50 crores, a growth of 19.3% year-on-year basis. Our PBT grew by 8.5% and PAT grew by 8.4% on a year-over-year basis. Our PBT and PAT percentage, partially impacted by Chapter 11 delinquencies as I said by now.

Moving to the vertical performance. CXM revenue for the H1 is INR146 crores, and there is a growth of 24.7% for the International Business, which is a higher margin business. Our margins growth - the International business has given a marginal growth of 18.9% on a year-over-year basis. H1 '24 CXM margin stand at 12.3% for H1 '24 versus 12.7% for the last year. Margins are partially impacted by the Chapter 11 delinquencies. EXM Payroll business grew by 19.7% and Stat business for the H1 grew by 10.4%.

Margin for the H1 EXM consol business is 32.2%, which is better by the 0.8% on a year-over-year basis. Employee record volumes increased by 12.5% on year-on-year basis.

With this all, I conclude the updates on the financials results. I wish you all happy upcoming festival season and wish you in advance of Diwali, Christmas, and coming New Year. With this, I pass on to the moderator to take up your questions.

**Moderator:**

Thank you very much. We will now begin the Q&A session The first question is from the line of Raghuram N from Eurindia Ventures. Please go ahead.

**Raghuram N S:**

Yes. Hi, Naozer and Gaurav. This is Raghuram here. Just had a three, four questions. First one, obviously, on the Chapter 11 that has happened this quarter. So is that -- if you can just give us some color on that? Is that something that was cooking and we had some risk mitigation that we had done before. So that this was -- at least the financial impact was minimal.

And if you can also just tell us whether there are any further risks on that count in the coming quarters? Or is this is something, which has already been completely provided for? That was the first question.

Second on, there are some observations on the trade receivables and the CXM segment assets going up significantly. For example, segment assets and CXM for this quarter seemed to be at about INR60 crores versus INR50 crores for the previous quarter. And segment liabilities also has significantly increased nearly 20%, 25% kind of increase.

Employees in the international business has jumped nearly 15% of 1,553 versus 1,361. And DSO, you have mentioned 81 days. Typically your DSO's would be in the 50, 52 kind of days. Is there something that, suddenly has changed? What exactly is the reason for that?

And the last question, last quarter or during the Quess call also, they have -- your Mr. Guruprasad and Pinaki Kar had mentioned that there was going to be a doubling of the seats in Manila. And now in your presentation, the latest one you say 1,500-plus seats. So is there's something that's further got added to because what I could understand was about 1,200 seats. Now this is a further increase of around 300 seats. So if you can just please update on that? So three questions, sir.

**Naozer Dalal:**

Sure. Thanks Raghu. Yes, so the Chapter 11 proceedings, it links to one of the mid-sized fintech companies we are working with. And thanks for bringing this out, I would have stated in my concluding statement anyway. To recollect my concluding statements in the last call in May was that, we continue to be a little mindful of the headwinds, particularly in the US economy and the potential impact on BFSI because that's where the largest vertical contribution for Allsec is.

And, we did see that risk crystalizing. To that question of whether there is anything proactive? Yes, the moment we sort of came to know about this, we started downsizing the number of people deployed for this immediately. And we have been very diligent in both billing and collections. And the client collection record also has been extremely precise. But still conservatively, we have made 100% provision on this account. And so therefore, there should be no residuary impact of this account in the coming or future quarters.

The Chapter 11 proceedings will continue. Administrator has been appointed and we are giving our inputs to the administrator. And we will come in line after the secured client creditors and the other secured creditors. On the financial-related questions, I'll hand it over to Gaurav to take them.

**Gaurav Mehra:**

Thanks, Naozer. Raghuram, on your two questions that whether we have factored the delinquencies full risk or whether there is anything to come. So that has already been factored completely into this quarter. Moving to the next question, you said that there is some increase into our receivable part, which is a part of our better international business growth, which is happening.

A large part of our new trade receivables is in the no-due category or within a very closed category of our due period -- credit period. Our DSO remains same for the quarter-over-quarter and is very close in that year-over-year. So there is - that is in line to the track. I hope this addresses your queries.

**Naozer Dalal:**

I think, it's also 81 days Raghu which are our both billed plus unbilled. So maybe you're comparing only one component when you say that earlier you also see that number as 54. The billed plus and unbill continues to remain at 81 and it's been pretty flat over the last both Q2 FY '23 and also Q4 FY '23.

**Raghuram N S:**

So billed remains at about 51 basis?

**Naozer Dalal:**

Yes, in that same ball park, yes.

**Raghuram N S:**

Okay. Just the last question on the employees' growth and the seats in Manila Please

**Naozer Dalal:** So I'm not sure where you're seeing that 1,500 seats, but that -- it is pretty much is consistent with what Mr. Guruprasad and Mr. Kar have told you. So the operational seats have -- are just under 1,200 and it has gone up from 600. If you've seen another number, I'm not sure where that is coming from.

But again -- that includes the non-operational seats also, the support seats, that's part of our Investor deck. There is no further growth from what we had already announced both in our projected growth in our earlier call and the Quess call which you mentioned.

**Raghuram N S:** Okay. So the employee business, employees in the international business is in line with what you had mentioned. That's what you mentioned?

**Naozer Dalal:** Yes.

**Raghuram N S:** Okay. Thank you so much.

**Naozer Dalal:** Thank you.

**Moderator:** Thank you very much. Our next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead, sir.

**Gunit Singh:** Hi, sir. So what is the outlook for H2 FY '24 in terms of top line and bottom line? I mean, will we will able to improve significantly overall performance in this quarter. What do we expect? And also, what kind of growth are we looking at in FY '25 and what are the main growth drivers in the future?

**Naozer Dalal:** Gunit, as you'd appreciate, we do not release precise financial numbers in terms of future guidance. But what I can state and assure is that, we will continue on the path which we set for ourselves in March/April this year, which is primarily incremental sales, with sales focus on the International business, continue to look at operational efficiencies very closely, continue to look at operational service excellence very closely because that helps us retain and mine existing customers.

And the last bit is of course, as we have completed our platform upgrades in September and are ready to sort of go-to-market particularly on the HRMS side, and that should hold us in good state for the remainder of this financial year and into FY '25 also.

**Gunit Singh:** All right. That's all from my side. Thank you.

**Naozer Dalal:** Thank you.

**Moderator:** Thank you very much. The next question is from Raghuram N S from Eurindia Ventures. Please go ahead.

**Raghuram N S:** Yes. Sorry to be back again. I just had one more question, which I left out. Obviously, Naozer, you mentioned that both SP4 and the HRMS platform has now been capitalized and it's no longer under the WIP kind of thing. So if you can give us some guidance on the -- how the depreciation

numbers will look forward in the next couple of quarters? And what will be the kind of increase that we will have to provide for in our workings?

**Naozer Dalal:** Raghu, we are still going through technical evaluation in terms of both the useful life of the asset and keeping market benchmarks and feedback in mind for similar kind of assets. As I mentioned, we only capitalized it on 30<sup>th</sup> September. So we have not completed that process. And of course, consultations and consensus with the statutory auditors would be a key part of that process. So unfortunately, not able to give you a precise number at this point. And we'll have to wait it out until we announce the Q3 results in January unfortunately.

**Raghuram N S:** Okay. So that's something that at some point of time, we will get to know later?

**Naozer Dalal:** Yes. As I said, you will get to know when we announce the Q3 results in the month of January '24.

**Raghuram N S:** Okay. And just one more question on the sales. The EXM sales have been clearly significantly higher than what it used to be in the previous year. So is this something that is indicative of the kind of momentum being kept up last year, we ended with about nearly 17% to 18% growth. So taking into account the ACVs, which are literally about 100% kind of up Y-o-Y. So is this one indicative of the kind of growth that we will end up for the financial year?

**Naozer Dalal:** Yes. So last year, the full year ACV was about INR25 crores in terms of what we did for EXM sales. And we definitely sort of look to exceed that number this year. What I can confirm is that, yes, we have definitely increased the sales figure. We have increased the channels who we work with, the channel partners who we work with particularly on the international side.

What we have also done is looked at augmenting our sales capacity. So we are actually getting into a planning phase for FY '25, where you will see where we need to augment our sales capacity, both locally and internationally. So yes, I can definitely confirm that the rigor will continue. And with that, the growth which we have seen, which should continue, and you will definitely see in the full year better than where we were in FY '23.

**Raghuram N S:** Okay. Just a related question to that. Obviously, International sales is something that, that you guys have mentioned crossed 50% of total new sales. So is this something that's a clear trend, which will continue into the near future? Or is this something that's a one-off kind of thing?

**Naozer Dalal:** No. As I mentioned in my response to my earlier question also was that, focus on International sales are equally in EXM while on CXM, of course, we focus only on International as part of a strategic call. But focus on International sales in the EXM also has been identified as one of the strategic initiatives earlier this year.

And we'll definitely continue in FY '25 also where we want to continue to look at working with our existing customers into sort of the newer geographies where they operate as a first step. Then looking at existing customers and start building capabilities over the newer geographies. And then, of course, newer customers and newer geographies, so that continuum has been planned. And we'll continue to focus on international sales for EXM also.



- Raghuram N S:** Okay. Any update on the acquisition side, Naozer? Obviously, you guys have given out an interim dividend and I still can see that the cash and liquid funds are about INR151 crores as given in your PPT. So we are still even after the INR47.5 crores nearly INR47.5 crores payout, which will happen over the next, whatever 40 days or 50 days.
- We'll still be left with more than INR100 crores. So is that something that you believe is going to be a working factor for you going into the -- this couple of quarters? Or is that something that you believe is not so much on the...
- Naozer Dalal:** We will continue to evaluate niche vertical acquisitions or certain geographic presence in the US. Those are some of the strategic drivers, which we will continue to look at it. We continue to look at opportunities, both in CXM and EXM, but there is nothing concrete on the table at the moment there.
- Raghuram N S:** Okay. So this INR100 crores will continue to -- you believe that, that's a good number to have, that's something that I wanted to just check. It's a pretty significant number from a perspective of our overall balance sheet size. It does impact the return percentages also significantly on the downside because we have such a large cash balance. So is this something that you believe is something that you will be able to carry it forward, going forward?
- Naozer Dalal:** We continue to evaluate, the most optimum use of the cash whether it's maximizing the internal returns from cash, whether investing in newer capabilities organically or as I mentioned inorganic also is an option on the table. So the dividend, which has been declared yesterday, continues to balance all of these factors, besides working on a sustainable dividend policy, which I have also mentioned.
- So we continue to evaluate this every quarter, balancing out, inorganic versus possibly organic and maximizing the returns within the current available investment policies, which we have.
- Gaurav Mehra:** Just to add one point to Mr. Naozer's claim, out of this INR100 crores, INR45 crores, INR46 crores is invested in terms of a mutual fund, which is kind of giving some reasonable return on the investment.
- Raghuram N S:** Okay. And how much of this would be sitting in Manila?
- Gaurav Mehra:** Not handy with me Raghuram, we can get back to you on this particular point.
- Raghuram N S:** I asked that because obviously, when you bring that back, there will be tax -- withholding tax impact. So that is something that will be a bit of a onetime phenomenon that happens. So I was just wondering what should be provided for from our calculation perspective, that's all.
- Naozer Dalal:** All right. Thanks Raghu, noted.
- Raghuram N S:** Thank you. Thank you so much. All the best, guys.
- Naozer Dalal:** Thank you.

**Moderator:** Thank you very much. As there are no further questions from the participants, I now hand the conference over to the management for the closing comments.

**Naozer Dalal:** Thank you. Thank you so much. I would like to thank all of you for the time that you have given us today and for supporting us over the years by being invested in our journey. We are at a good trajectory in our journey and are well poised to capitalize on both the market opportunity and also some of the investments we have made in people, process and technology over the past few years.

We continue to monitor our risk closely and also before closing, I would like to wish each of you and your dear ones best wishes for the festive season, which will soon be upon us, starting with Diwali and leading up to Christmas and New Year.

With this, we would like to close the call and look forward to interacting with all of you sometime again in the near future. Thank you so much.

**Gaurav Mehra:** Thank you.

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