

Hinduja Global Solutions Q3 FY2014 Earnings Conference Call

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Management: Mr. Partha De Sarkar – CEO, Hinduja Global Solutions

Mr. Srinivas Palakodeti – CFO, Hinduja Global Solutions



Moderator Ladies and gentlemen, good day and welcome to the Q3 FY2014 Earnings Conference Call by Hinduja Global Solutions Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Bijay Sharma of Churchgate Partners. Thank you, and over to you, Mr. Sharma.

Bijay Sharma Thank you Mallika. Good afternoon everyone and I welcome you to Hinduja Global Solutions' Q3 FY2014 Earnings Conference Call. Joining us today on this call are Mr. Partha De Sarkar – CEO and Mr. Srinivas Palakodeti – CFO. Before we begin, I would like to mention that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to our earnings presentation. Now, I would like to invite Mr. De Sarkar to provide his perspective on the performance for this quarter. Over to you, Sir.

Partha De Sarkar Thank you Bijay. Thank you and welcome everyone to Hinduja Global Solutions Earnings Conference Call to discuss our results for the third quarter of the fiscal year 2014. We hope you had a chance to review our presentation and financials which are available under the investor's section of our website. I would like to start by providing an overview of this quarter's financials, followed by highlights of our key strategic and operational performance across the geographies. Post that, I will hand over the call to our CFO – Mr. Srinivas Palakodeti to discuss the financial performance. We will then open the call for an interactive Q&A session.

It gives us great pleasure to talk about another quarter of strong financial performance. This is our fourth consecutive quarter of high growth and improved margins. In Q3 FY2014, our consolidated revenues, EBITDA and PAT achieved new heights despite a stronger Rupee compared to Q2 FY2014. During the quarter, our consolidated revenues increased by 26% on year-on-year basis to Rs. 6,569 million. This strong growth was driven by increase in volumes from existing

customers and new client additions. Geographies such as the Philippines, North America, Canada and India experienced strong volume growth during the quarter. Of the 26% growth achieved, volume growth contributed 15% and foreign exchange gains contributed the remaining 11%.

Our consolidated EBITDA for the quarter was Rs. 919 million, representing a growth of 72.3% compared to the same period last year. EBITDA margin for the quarter increased by 375 basis points compared to Q3 FY2013 to reach 14%. The significant growth in EBITDA and margin improvement was due to better capacity utilization levels at delivery centers across all geographies. Further our continued focus on performance management and cost control measures have started yielding results. The portfolio rationalization exercise of exiting from some of our low margin relationships or reworking of contracts with price revisions have also been helping.

Our consolidated profit after tax for the quarter was Rs. 541 million, an increase of approximately 170% compared to the same period last year. This improvement was due to higher EBITDA and lower interest expense as a result of debt repayment and better working capital management. The current quarter's profit after tax also included a one-time tax reversal credit for prior periods of Rs. 96 million. PAT margin for the quarter was 8.2%, an increase of 440 basis points compared to Q3 FY2013.

Based on our consistent robust financials and strong outlook, the Board of Directors has decided to declare an interim dividend of Rs. 5 per share.

Moving to the discussion on operational performance of our geographies, the US economy continues to improve, driven by better consumer confidence and business investments. As mentioned during our last quarter's conference call, the US healthcare reforms had started from 1st October 2013 and despite some technical challenges faced by the exchanges, the open enrolment session recorded significant increase in volumes. Going forward, we anticipate further increase in outsourcing activity from the health insurance companies. During the quarter, we signed a

contract with a large financial services client and expect revenues to accrue from FY2015. We also added a client in the consumer electronics vertical which will be serviced from Philippines, starting Q4 FY2015. An international FMCG company which was being serviced from the UK has recently signed a contract for delivery from the US. We have opened a new office in Princeton to expand the EBOS business. The US operations remain focused on improving client profitability through price revisions and operational efficiencies. HGS US continues to invest in sales and marketing team with a focus on large deals with multiple geography delivery models across verticals.

Our Canadian operations have also demonstrated robust performance. December 2013 recorded the highest ever monthly revenues. This growth was achieved despite a loss of productive man hours due to inclement weather conditions. Our offshore revenues from Canada improved, driven by a new project launched in Q2 FY2014. We are currently in the process of ramping up various onshore and offshore projects from Canada which are expected to improve revenues for the operations going forward.

The performance of our European operations remained under pressure during the quarter due to the prevailing subdued macroeconomics scenario. The core CRM business remained soft but HGS Europe continues to focus on building up new business pipeline in the government, retail, consumer goods and telecom sectors. During the quarter, we also appointed Mr. Matthew Vallance as the CEO of HGS Europe to strategically expand the operations.

As discussed during the previous quarters, we were selected as one of the four approved government outsourcers with the government procurement service. I am pleased to report that we have recently signed a contract with a UK government department. This contract is expected to contribute to revenues and profitability from FY2015. We also secured additional business for technical support from an existing telecom client. Also in Q3 FY2014, we increased our focus on marketing and rebranding initiatives, the benefits of which would be evident in the coming quarters. The good news is that the European economy is finally showing the first

signs of revival, leading us to believe that the worse is probably over and better days of growth are ahead.

Our Philippines operation, which was struggling in FY2013 because of excess capacity, has been able to continue its remarkable recovery in FY2014. The first outsourcing client from Canada has been operating optimally and is expected to expand seats in the coming months, driven by improvements of operational metrics. During the quarter, one of our largest consumer electronics client demonstrated strong increase in volumes. Further, various clients who were in a ramp up mode during the last quarter are now performing well. We recently received approvals to increase seats from an existing healthcare and a BFSI client. The Philippines operations received a pilot project from a client in the healthcare vertical for providing data maintenance and telephone case management. The training for this project started in December 2013 and is expect to be fully operational by February 2014.

We also started training of 50 FTEs for a consumer electronics client, which is expected to reach 100 FTEs in the coming year. Keeping this strong demand in view, we started two new centers in Alabang, Philippines in January 2014 to service clients in the healthcare and the financial services verticals. The centers have around 750 seats and we hope to fill them by the end of FY2015. For the EBOS business, we received a contract from a new healthcare client which is expected to start from February 2014 with registered nurses providing outbound pre-authorizations calls.

Also, HGS Philippines has been selected by an existing healthcare client to handle new lines of services including medical case management with an estimated size of 80-100 FTEs. We have also received approval from an existing US-based financial services client for additional 100-150 FTEs to service card members from our Alabang site and is expected to start from June 2014.

Based on strong demand and the sales pipeline, the outlook of our Philippines operation is very exciting. We anticipate significant growth in revenues in the

coming quarters. However, the profitability may be a bit muted in the near term as the cost of ramp up is going to be incurred before the revenues come in.

Moving to India international operations, traditionally the third quarter has been strong for the healthcare business and during the quarter, we experienced robust growth across all key existing healthcare clients. This operation has also been experiencing increased demand for the new lines of services from existing clients. Considering the rise in revenue and cost incurred during the first half of the year, the profitability of this operation showed significant improvement. We have also expanded our facility in Bangalore to address the increased demand from our healthcare clients. A combination of Philippines and India has shown an increased off-shoring demand, and today our off-shoring revenues are about 36% of our total revenues.

Our India domestic CRM services have been flat compared to Q3 FY2013 as we exited some of the unprofitable accounts. The portfolio churn accompanied by rate increases and other performance enhancement measures have shown significant improvements in profitability. The ongoing initiatives for our performance improvement and corrective measures undertaken during the year are expected to result in further enhancement in margins going forward.

HGS is also receiving encouraging response from clients in the Middle East and North Africa region and we are focused on driving business from the Middle East during FY2015. This is for our HRO services as well as for traditional CRM services. Our first CRM client from this region who has been serviced from Hyderabad continues to do well. We are excited at the future prospects of this region.

In summary, we have consistently delivered a strong financial and operational performance despite strengthening of the Rupee compared to Q2 FY2014. Our robust growth has been supported by superior performance across all geographies, except Europe. However, we expect the performance of our European operations to improve in the long term. We are also focused on continually enhancing our

margins and gradually improving shareholder returns. Management continues to see strong broad-based demand for its services across geographies and verticals. However, in the consumer electronics sector we foresee some challenges. As you all know, the Japanese consumer electronics brands are having a tough time in the market place and are experiencing decline in sales and volumes. As a result of that, the consumer electronics portion of our portfolio may suffer some shrinkage but on the strength of a robust sales pipeline and emphasis on new lines of services, we expect our growth momentum to continue.

I would now like to hand over to Pala who will walk us through the financials in detail. Over to you Pala, and thank you all for being with us on the call today.

Srinivas Palakodeti

Thank you Partha. Good afternoon everyone. I would like to welcome you once again for joining our Q3 FY2014 Earnings Conference Call. Traditionally, the third quarter has been strong for our business compared to the first two quarters and this quarter was no different. The consolidated revenues for the quarter stood at Rs. 6,569 million representing an increase of 26% compared to the same period last year.

Our EBOS acquisition was done effective 8th October 2012 and hence financials for Q3 FY2014 are comparable to Q3 FY2013. Of the total revenue growth of 26%, around 15.4% of the growth was an account growth in volumes from existing clients and new clients addition, and the balance is on account of exchange rate variations of the Rupee versus the Dollar and the Peso versus the Dollar. Offshore business for the quarter came at 36% of the total revenues.

In terms of exchange rates, the average rate for the quarter of the US Dollar to the Rupee was at 61.97 compared to 54.31 for the quarter ended December 2012. Average exchange rate for the Philippine Peso to the US Dollar changed from 41.00 for the quarter ended December 2012 to 43.8 for the quarter ended December 2013. As of December 2013, the US Dollar to the Rupee rate was 61.86 while the Dollar to the Peso rate stood at 44.40.

In terms of revenue breakdown by geography, the performance across all geographies has been as per our expectations. US accounted for 60% of the total consolidated revenues, Canada accounted for 23%, UK and Europe 9% and the balance 8% was contributed from India. Compared to the quarter ended December 2012, the share of US remained unchanged at 60% but there have been some changes in contributions from other geographies. Contribution from Canada has increased from 20% in Q3 FY2013 to 23% in Q3 FY2014. The contribution from the UK and Europe declined from 11% to 9% as a result of the increase in other geographies. In India, the revenues of HGS Business Services, the HRO business grew 45% while the India CRM business remained flat. Overall share of India originating business fell from about 9% in quarter ended December 2012 to 8% for the quarter ended December 2013.

Moving to the revenue split by verticals, contribution from healthcare vertical increased to 27% from 25% in the same period last year. Our contribution from the telecom vertical has increased from 30% to 32% for the quarter ended December 2013. The consumer electronics vertical declined by about 150 basis points compared to the same period last year due to a weaker demand scenario from clients. Contribution from other verticals remained flat with financial services and media verticals accounting for 8% and 7%, respectively.

During the quarter, our consolidated EBITDA was Rs. 919 million, an increase of 72.3% over the same period last year. Our consolidated EBITDA margin has improved significantly by 375 basis points to reach 14% for the quarter. This improvement in EBITDA margin is due to better capacity utilization levels across all geographies coupled with benefits from continued efforts on performance management, cost control measures and portfolio review.

Employee benefit expenses for the quarter increased from Rs. 3,534 million in quarter ended December 2012 to Rs. 4,333 million for the quarter ended December 2013. However, as a percentage of total revenues it declined from 67.8% for the quarter ended December 2012 to 66% for the quarter ended December 2013. While the depreciation expense for the quarter increased by 11% in absolute terms, as a

percentage of total revenue it declined to 3.5% for the quarter ended December 2013 as compared to 4.0% for the quarter ended December 2012.

Interest expense for the quarter declined by 9% compared to the quarter ended December 2012. This decline was primarily due to debt repayment and better working capital management. Interest expense currently accounts for 1.6% of total revenues as compared to 2.3% for the same period last year. Our other income has fallen from about Rs. 115 million for the quarter ended December 2012 to Rs. 39 million for the quarter ended December 2013 due to relative exchange rate variations over the quarter ended September for the same year.

Despite the drop in other income, PBT for the quarter ended December 2013 stood at Rs. 618 million, 92% higher than PBT of Rs. 321 million for the quarter ended December 2012. Tax for the quarter ended December 2013, net of MAT credit for the quarter, stood at Rs. 172.5 million roughly at about 28% of the PBT. As you would have seen from our press release and publication page, we have also availed MAT credit of Rs. 41.3 million for Q1 FY2014 and Q2 FY2014 and Rs. 54.4 million for the prior years.

PAT for the quarter was Rs. 541 million as compared to Rs. 200 million for the quarter ended December 2012 an increase of about 171%. The MAT asset recognition was due to the merger between HGS Business Services and our SEZ Company HGS International Services. Normally SEZs are exempt from tax but they are required to pay MAT. Till now, we could not recognize this amount being paid to the Government as a recoverable advance or a MAT asset because there is no certainty on utilizing this as there would be a time limit and the normal tax rates would effectively come in after 15 years. Based on a consolidated structure, we are now able to recognize these MAT assets and hence we have recognized a total amount of Rs. 112.6 million, of which Rs. 41.3 million pertains to first half of this fiscal year and Rs. 54.4 million pertains to the earlier years.

Our business ROCE excluding treasury income from EBIT and excluding treasury cash from capital employed came to 17.2% for the quarter and for YTD it is

around 17%. We are comfortable with our current capital structure. Our total debt as of 31st December 2013 was Rs. 6,362 million. Our cash and treasury surplus at the end of the quarter was Rs. 5,740 million resulting in net debt of Rs. 621 million. Our networth at the end of the quarter was Rs. 14,650 million, and based on current debt, we have a conservative leverage position of the debt / equity of 0.43x and net debt / LTM EBITDA of 0.20x.

Our total headcount as of 31st December 2013 was 25,676, an increase of approximately 1,000 employees compared to quarter ended September 2013. Headcount has increased across all geographies. The headcount of India Domestic CRM business declined by around 350, but an increase of 606 in India International and payroll business has led to net increase of around 250 for India-based headcount. Of the total headcount 59% are based in India, 17% in Philippines, 10% in US, 11% in Canada and the remaining are in UK and Europe. The total number of seats as at end-December 2013 was 24,400.

With this I would like to open the call for a Q&A session. Thank you very much.

Moderator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar

I have just two questions. One is that we have seen that the retail sale in the US was not as good as expected and also in January there was an ice-storm in Canada and North America. So, do we expect this to result in any slowdown affecting our Q4 FY2014 performance? And also if you could just give how is Canada subsidiary doing because in the annual day, there was a mention of new opportunities being opened in that geography regarding BFSI space?

Partha De Sarkar

I did mention about the fact that the consumer electronics clients are facing slowdown in demand and therefore we are also being watchful as to what our exposure is to such clients. We expect some softness in demand from some of our clients in the consumer electronics verticals but our volumes may not be impacted

because the capacities are being utilized for additional volumes from the telecom and other consumer electronics clients.

You also mentioned something about Canada, I did mention that we did have a situation with climate in Canada and whole of the US, which resulted in some man days being lost but despite that our revenue from Canada has been the highest historically because the demand was so high. Canada continues to do very well and we are still in talk with a financial services provider who has shortlisted us. The contract is not yet signed but I would say that we are in advanced stages.

Moderator Thank you. The next question is from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre Sir, just a few housekeeping questions. At what price have we booked the Canadian revenues and UK revenues at exchange rate?

Srinivas Palakodeti So the rate for the Canadian dollar came in at about 58.69 for the quarter.

Mahesh Bendre And Pound?

Srinivas Palakodeti Pound for the quarter average would be roughly about 101.

Mahesh Bendre And Sir, our seat numbers stood at around 24,401, which is actually a sequential drop of 426, so any specific reason for behind the reduction in the seat numbers?

Srinivas Palakodeti Yes. As I mentioned we have been very selective on our India Domestic business and are utilizing existing facilities for expansion of India International operation. In centers like Bangalore, we have been able to convert some of the assets from domestic business for international operations instead of building new seats. Sometimes an India International client requires larger seats because some of the processes need more space for two computers. So, there has been some realignment of seats, as a result the seats have not increased in line with employees.

- Mahesh Bendre** And Sir, another observation is that in the UK, the employees number have come off by probably 200. I mean there is a reduction in the UK employee base, so any specific reason for that?
- Srinivas Palakodeti** When we look at these numbers from a percentage perspective, you may be doing some approximation but I can give you the exact employee breakup. So as at 31st December 2013, the number of employees in the UK is about 800 levels and in September 2013 it is about 805.
- Mahesh Bendre** And Sir, what is the current utilization across our facilities? And how long will we be able to grow without substantial addition of manpower?
- Srinivas Palakodeti** Is your question manpower or seats?
- Mahesh Bendre** No, I am just asking what the current utilization level is and how long will we keep utilizing till we have reached the optimum utilization level?
- Srinivas Palakodeti** So as you said, our seats are running at fairly high capacity utilization in almost all geographies. In the UK, obviously things have been depressed so there is some slack. But you know as we said earlier, we have opened two new centers in Philippines looking at the volume of business which is coming in.
- Mahesh Bendre** In the press release, we have mentioned that we have signed the contract with an UK government department and the revenue is likely to accrue from FY2015. And in the initial remarks also, you mentioned that we have signed a couple of contracts where revenues are expected to flow in from next year onwards. So could you provide some details and even quantify the possible contribution in FY2015?
- Partha De Sarkar** Mahesh, we have stayed away from giving guidance. We cannot give you specific numbers because that is not something that we have historically done. So, we would not able to share with you very specific numbers on what FY2015 is going to look like.
- Mahesh Bendre** No, but will this contribution be substantial?

Partha De Sarkar It is going to be good.

Mahesh Bendre So this will be additional incremental revenue to our revenue stream.

Partha De Sarkar That is correct.

Mahesh Bendre And Sir, last question. We have reached the fag end of this financial year. We have performed exceptionally well in the first nine months. So what is the outlook for the fourth quarter of this financial year and for FY2015 in terms of growth and the margin?

Partha De Sarkar I can give you qualitative statements. We would be able to sustain our growth momentum in fourth quarter. And for FY2015, the pipeline is very strong, and we believe a large part of the pipeline will convert and give us volumes in FY2015 and contribute to our revenue.

Mahesh Bendre And in terms of margins I mean we have hit a 14% margin this quarter. So do you expect there could be some additional cost that might come up in Philippines and could there be some drop on margin side? So just wondering what is the outlook for next year?

Partha De Sarkar See our second half is stronger than the first half. So that trend may continue. As of today, there might be some softness in Philippines because there is a time lag between the cost that we incur because of ramp-up and the revenues when they come in. So, it is a temporary phenomenon over a business cycle. These temporary blips are not something I would be too concerned about.

Mahesh Bendre For next year, do you expect at least a double-digit volume feasible given the number of contracts that are likely to come up?

Partha De Sarkar Again, you are asking me for a very specific number. I would not able to give you guidance. I can only talk about our track record. Our CAGR over the last five years have been higher than 20%. I would not be able to give you a specific guidance on what FY2015 would be.

- Moderator** Thank you. The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.
- Amit Goela** Just one question, I had a housekeeping question. You had a MAT credit of Rs. 11 crores this time, so effectively what would be your tax rates going forward? Will it revert back to the old rates or is this how we can treat it like?
- Srinivas Palakodeti** The total MAT credit is Rs. 11.26 crores, of which Rs. 1.7 crores is for the current quarter. As we have now started recognizing the MAT credit, this will remain at approximate same level going forward. Rs. 4.12 crores pertains to Q1 FY2014 and Q2 FY2014, and Rs. 5.43 crores is for the previous years. So, Rs. 5.43 crores pertains to previous financial years and Rs. 4.12 crores pertains to first half of this fiscal year. If I exclude this MAT and take a net estimation against my tax, you will come back to a figure of about 28%.
- Amit Goela** So the effective tax rate will be about 28%. You gave a fairly robust guidance in terms of going forward in your initial remarks. Partha, you mentioned that we have got some good business deals and leads. So, is it that we are seeing increased momentum or how is the competition for this kind of business or is it just business where we have been able to get market share or business itself is growing very rapidly?
- Partha De Sarkar** So Amit, even in the earlier analyst meet, I had mentioned that the total market size is about Rs. 240 billion and it is growing annually at a rate of 5% as per Gartner. It is a fragmented market so there is enough available for everybody. We seem to be at a point where our sales team is performing very well. So, even during the slow down what we did do was to invest in sales which is yielding results. So where we are seeing our pipeline today, I am very bullish about how FY2015 is going to be like.
- Moderator** Thank you. The next question is from the line of BT Jumaní an Individual Investor. Please go ahead.

- BT Juman** This is a question regarding the interview given by Pala in IIFL regarding Obama Care. I would like to know how much will be the opportunity from Obama Care to the overall industry and how much is the share likely to come, even assuming we cannot take the share ourselves? How much is the opportunity and can there be any inflection point?
- Partha De Sarkar** So this question is to Pala or to me?
- BT Juman** It is to you but this is regarding the effect of how much is the business which is now going to come from Obama Care either to all the companies or to our company?
- Partha De Sarkar** So let me try and attempt that. So, 39 million is the size of the total population that can get included in health insurance as a result of Obama Care. Obama Care is the popular name and the real name is Affordable Care Act. So, 39 million is the size of the population. Our data is about a month old; Out of the 39 million, about 2 million would have converted because of a problem with the website. It is very difficult to give you an accurate number and I hope you are aware of the problem that happened with the website there, right?
- BT Juman** Yes, I am.
- Partha De Sarkar** So because of that, it is difficult to give you an accurate number of what the exact computation is because there is still some lag in the system and we do not have an exact number. But to explain briefly, of 39 million - whatever be the percentage of conversion - there will be an increase in the total volume of people who are insured today. That will result in higher processing volumes; they would result in newer challenges because what will happen is this is also going to be the population which was not covered by health insurance earlier because of various reasons. So there will be pressure on the insurers to be able to service this portfolio of clients in a profitable way. The SG&A spends will have to be kept on least for them to be able to enjoy margins from this portfolio. And the way to improve SG&A spend is to do more outsourcing and also, to some extent that it is allowed by regulation, to offshore.

So that is why we believe that this is a big opportunity for us because if you looked at some of the reports that we have shared on our Analyst Day, we are rated #3 in execution so far as healthcare as an industry is concerned. And that is a very strong position to be in, even in comparison with other competitors who are bigger brands than us. We hope to enjoy the ride because we have got very strong domain expertise in healthcare. It has been our oldest vertical and a very strong presence across almost all the top insurers in the US.

BT Jumaní

Can you quantify in terms of dollars and timings?

Partha De Sarkar

I would not be able to give you a dollar number. I gave you the numbers of people that can possibly get covered under Healthcare Act.

BT Jumaní

And timing?

Partha De Sarkar

No, it is going to be a gradual thing. So that is why I would not be able to give you an accurate number but we are seeing those volumes slowly convert and had the website problem not happened, we would have been in a better position. But right now, we are still in a catch-up mode because the website just started functioning.

BT Jumaní

You are opening three centers, two in Philippines and one probably in India. Is it going to affect the bottom-line in the fourth quarter?

Partha De Sarkar

Fourth quarter is almost done, so I believe that the fourth quarter margins are going to be in a similar range as third quarter. I have mentioned about the fact that because the ramp up cost comes ahead of actual revenue kicking in, our Philippines numbers may be a little muted in FY2015. That is the visibility that I have today. But it is possible that it gets made up by margins improving across other centers.

Moderator

Next follow up question is from Mahesh Bendre from Quantum Securities. Please go ahead.

- Mahesh Bendre** Sir, just a follow up question. In one of your interviews a few weeks back, you had mentioned that a company like ours is finding difficult to acquire new companies because of devaluations. So your view on that and what geographies and verticals are we looking at for acquisition and also size if possible?
- Partha De Sarkar** Mahesh, valuations have actually gone up quite a bit. So, right now while we are looking at acquisitions, at current valuation it does not make sense. Beyond that, I do not think I have anything specific to add to that. It is not something that we are looking at right now because we do believe the market is very, very overheated.
- Mahesh Bendre** Sir, is it they are quoting more than 5x EV/EBITDA?
- Partha De Sarkar** Yes, it is. For example, one asset that we looked at in Germany was about 8x EBITDA and there is no way we could have justified paying that amount. So we have decided to go slow on all those kinds of bids.
- Mahesh Bendre** Is it reasonable to assume that in the next two-three quarters, there would not be any acquisition as such coming our way as things stand?
- Partha De Sarkar** See if valuations are at the level at which we are seeing currently, it does not make any sense. However, if there is something opportunistic that comes out which is in the healthcare space, which is not such an expensive one, we may look at it. But clearly overpaying for an acquisition is something that we have never done in the past and we would not do in the future as well.
- Moderator** Thank you. The next question is from the line of Manish Gupta from Rare Enterprises. Please go ahead.
- Manish Gupta** I have two questions. The first one is how much cash did we generate in this quarter both before and after CAPEX? And the second one is just related to some commentary made earlier about an acquisition in Germany. I just wanted to understand management's thought process that given the fact that, you know if you look at Indian companies, their track record of acquisitions in Europe is not been very successful, then why would we not stick with just Anglo-Saxon countries?

Why would we look for an acquisition in Germany and what is the strategic rationale? How do you see the fit with our core business, what are the risks you see even assuming we got it at a price that you considered was reasonable?

Partha De Sarkar Okay so that is a fairly different question and a larger question. I will address that second question later. Pala, if you could finish the first question please.

Srinivas Palakodeti So the CAPEX for the quarter is about Rs. 29 crores and the cash flow from operations came in roughly at about Rs. 60 crores.

Manish Gupta So the free cash flow was about Rs. 31 crores?

Srinivas Palakodeti That is right.

Partha De Sarkar So you want me to answer the question about our specific interest in Germany?

Manish Gupta Yes please.

Partha De Sarkar The way we look at it is that we are always on the lookout for newer markets, and Germany is the largest economy in the Eurozone and one of the strongest economies. So we were evaluating Germany from the perspective to look at it as opening up a new market for us and we went to the market just to understand the dynamics of the market, and we realize that there are very few players who are non-German who are large there. So a part of our exploring newer markets is to understand the market dynamics explore opportunities and see whether it makes sense from us a strategic perspective.

That's the thing that we did when we tried to look at this particular asset and it give us a lot of interesting insights in to Germany the market place, who are the players, what works and what does not work. It is a good learning for the team as a whole. And we decided to stay out of the process. So does it answer your question?

Manish Gupta You have explained why you did not acquire the asset. I think my question is broader - why would you, given the huge opportunity you see in healthcare in the US, and while you are getting a lot of traction in Canada where I think you are one

of the market leaders. Why would you not channel your capital in areas that you are strong in, and domains where you understand the culture and where language is not an issue. Given the market is so big, why would you even venture in to territories where your probability of success is less and challenges of integration would be so much more than just sticking with Anglo-Saxon countries?

Partha De Sarkar

That is an interesting question. It is actually a philosophical question. In 2003, when we went in to Philippines nobody had heard about Philippines. Did you hear about Philippines then? Well, Philippines has a very large population that speaks English in the accent which Americans prefer. So in some sense, one could argue that there was some cultural familiarity of the Americans and the people of Philippines, and the Indians in the Philippines because of their common English language. But in 2003, nobody knew about that, right? People woke up to Philippines only as late as 2009-2010, right? We were there in Philippines in 2003. If we do not explore, we would not know. Nobody was there in Canada when we went to find a great market there. So, unless you explore, you would not know, and you can then take a strategic view whether you want to play in that market or not. That is a completely strategic call. That is the way we view opportunities. And there is no getting away from the fact that we have established presence in the North American market and we are going to exploit that more and more. We have a very strong presence in healthcare and we want to grow that more and more. I am just saying that if you do not look at something which is new, we just will not know what opportunities lies there. And if we had not gone to Philippines in 2003, we would have been very, very late in the game. In Canada, we are probably the second Indian company. So these have come about just because we chose to explore and not get satisfied in staying in our comfort zone.

Manish Gupta

Okay I think I will take that offline with you, Partha. I think we had this debate before.

Moderator

Thank you. The next question is from the line of Jagdish Bhanushali from Athena Investment Services. Please go ahead.

- Jagdish Bhanushali** My question is that in this quarter, we have a very good growth in the healthcare vertical. I wanted to know whether it did come from provider side or the payer side. And the second thing is in FY2015, in which side do we see growth - payer side or provider side?
- Partha De Sarkar** With the recent healthcare reform, the distinction between payer and providers is gradually going away. Because what is happening is lot of the payers are actually ending up buying the providers, making them a part of their network and therefore managing their healthcare costs. So, with healthcare reforms happening, Accountable Care is the main thing and therefore that delineation is increasingly going to be very, very thin. The specific answer to the question is because payers are such a large percentage of our revenues today, the increase also comes from the payer side of the business. But interestingly while it is coming for the peer clients, it pertains to provider side of the business. So, let us say they have a network of clinics and hospitals, and all are part of their network, whom they can refer all their patients too. So the work that they are giving us pertains to servicing those providers. So, therefore the answer to your question is a bit of both.
- Moderator** Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.
- Ravi Menon** I just wanted a couple of data points. One is how long does it take you from hire to deployment in Philippines and in India?
- Partha De Sarkar** About 30 to 45 days.
- Ravi Menon** And I have noticed that before this, we had ramped up in April-June quarter in Philippines and then it went down a little bit. I mean was it because we just had backfill attrition or was there some kind of a layoff. I mean we went down about 3,900 people or about 3700 or so?
- Partha De Sarkar** Which quarter are you talking about?
- Ravi Menon** That was from the April-June quarter to the July-September quarter?

- Partha De Sarkar** Okay, you are talking about data from two quarters back. To give you a specific answer to this question, I really have to hunt my memory as to what happened in that. But let me tell you that we may have situations where we fill up our seats to handle seasonal volumes. When the season goes down, we either let them go or if coincidentally, some new business comes in then we keep them. It is very normal for us to ramp up and down for the season because of the holiday season rush or because of the open enrolment that happens during the end of the year for our US clients. It is very normal and if you can retain the business well and good, otherwise if something else comes up, we can employ those people. If you do not have something else to employ those people, then those who are on short term employment contracts, we will let them go.
- Ravi Menon** There is a slight decrease in the headcount in Canada, is that related to a ramp up in Philippines?
- Srinivas Palakodeti** Just to make sure, are you applying percentages on the numbers which you have shared?
- Ravi Menon** Yes, that is what I am doing. I mean I am looking at the head count that you have given 25,576 and the break up by geography, and I am arriving at headcount for each geography.
- Srinivas Palakodeti** So you know, I guess there is some approximation going on. If I look at Canada in December 2012, we were at 2,178 and December 2013, we are about 2,848. So there is an increase of more than 600 employees between December 2012 and December 2013.
- Ravi Menon** Now, talking about last and current quarter, we have 2,960 and about 2800 something?
- Partha De Sarkar** Canada is pretty much flat at 2,848 and 2,840, so these are the exact numbers. But whatever we are offshoring is incremental business which we are getting from clients which has been offshored to Philippines. It is not a replacement business.

- Ravi Menon** Are you still dominant only in Telecom in Canada or is there any other vertical that you guys are active in?
- Partha De Sarkar** Our clients have been same - that is in telecom, banking and financial services.
- Moderator** Thank you. The next question is from the line of Hansal Thacker from Lalkar Securities Private Limited. Please go ahead.
- Hansal Thacker** You have mentioned that you are looking to make a foray into eLearning in the insurance and the insurance agent space in the US?
- Partha De Sarkar** No that was just a casual conversation about some of the new areas that we are working on. It is not anything that is worth mentioning at this point of time. That was just an example that I gave to a journalist.
- Hansal Thacker** And sir, do we have a dividend policy in place yet?
- Partha De Sarkar** Well, we have been consistent in our dividend. We paid Rs. 20 for the last four years, and as of now, we have paid two interim dividends... that means Rs. 10 have already been paid. This is the first time that we have actually paid interim dividend based on the fact that our profits have been really good. So, that is where we are. We do have a track record. We do not have a published dividend policy.
- Moderator** The next question is from Ruchi Burde from Emkay Global Financial Services. Please go ahead.
- Ruchi Burde** I have been reading people mentioning about this issue regarding the Obamacare website or relaxing the deadline for small or medium enterprises for this particular Act. So people are questioning the implementation of this Act. Have we experienced some kind of delay in terms of any dialogues which our clients might be having or is it going in the normal way?
- Partha De Sarkar** See what has happened is our clients have not been able to predict when the volumes are going to hit them. All of a sudden they have been hit with volumes that they were not been prepared with. That has actually paid out well for us

because we have been immediately asked for help. That has helped in higher numbers for us, which are going to show up in fourth quarter as well.

Ruchi Burde Are we seeing any impact on our orders or any dialogue with the clients?

Partha De Sarkar No, it is actually being beneficial for us because the volumes are coming in suddenly and they did not have the capacity to handle those increased volume. So, they are asking our help to handle these volumes. In a way, that has worked out good for us.

Moderator Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar We had a really great year last year in Canada geography. So any outlook that have we achieved a pace or how that market is behaving and how is the opportunity panning out? Is it better than last year or how is it?

Partha De Sarkar I think the market is increasing to offshoring right now which is very encouraging. We always thought that it will eventually happen. Offshoring is new to Canada and not too many players want to do offshoring but we are seeing increasing interest in offshoring. We are very bullish that it is going to help us in a big way. Onshore business is also doing well and we are seeing increased interest in offshoring, so both are happening at the same time.

Pranav Tendulkar Can you please tell who are the main competitors there?

Partha De Sarkar There are not too many big players there. There is Minacs which has been acquired by an Indian PE firm and then there is us. Other than that, there are very few big players. There are some more but it is a fairly interesting market with few players. That is why we went there in the first place.

Moderator Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

- Subhankar** Two theoretical questions, Sir. What would be our effective tax rate this year and next year? Secondly, based on the order win that you have talked about, can we expect a similar kind of volume growth for FY2015?
- Partha De Sarkar** Okay Pala, you take the first question please.
- Srinivas Palakodeti** Your question is what will be the effective tax rate?
- Subhankar** Yes sir.
- Srinivas Palakodeti** Yes, it will be in the 28% to 29% range.
- Subhankar** And second if you can talk a little bit about the volume growth for FY2015 in terms of the visibility.
- Partha De Sarkar** Subhankar, I would not be able to give you a specific number. We do not give guidance.
- Subhankar** Just a directional.
- Partha De Sarkar** Directionally, I told you we hope to be able to sustain the momentum that we have. Our CAGR for the last five years has been 20% and I am hoping that we can carry forward that momentum.
- Moderator** Thank you. As there no further questions, I now hand the conference over to the management for their closing comments.
- Partha De Sarkar** Thank you ladies and gentlemen for taking time to join us on this call today. We expect to get together sometime in May for the fourth quarter and full year results. Thank you very much once again.
- Moderator** Thank you, members of the management. Ladies and gentlemen, on behalf of Hinduja Global Solutions, that concludes this conference. Thank you for joining us and you may now disconnect your line.

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Note: This document has been edited to improve readability

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