



“Hinduja Global Solutions Conference Call to Discuss Q3 FY20 Post Results Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Hinduja Global Solutions Q3 FY '20 Post-Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. R. Ravi, Vice President, Head of Investor Relations. Thank you, and over to you, sir.

R. Ravi: Thank you, Karina. Ladies and gentlemen, I, R. Ravi, Head of Investor Relations at HGS, wishing all a very good evening, and a warm welcome to the third quarter and 9 months FY 2020 post-results conference call. To discuss the quarter 3 and 9-month results, I am joined by Mr. Partha DeSarkar, Executive Director and Chief Executive Officer; and Mr. Srinivas Palakodeti, the Global CFO.

Before we begin the conference call, I would like to mention that some of the statements made today during the course of today's conference call may be forward-looking in nature, including those related to the future financial and operating performances, benefits and synergies of the company's strategy, future opportunities and the growth of the market of the company's service and solutions.

Further, 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 risk and uncertainties. Now I would like to invite Mr. Partha DeSarkar to provide his perspective on the performance of the quarter. Over to you, Mr. Partha.

Partha DeSarkar: Thank you, Ravi. A very good afternoon, and thank you all for joining us on the call today to discuss our third quarter and 9 months FY

2020 financials and business performance. I hope you have had an opportunity to review our earnings press release and the attendant fact sheets of the reported financials, which are available under the Investors section on our website, www.teamhgs.com as well as the same are uploaded on BSE and NSE.

I would like to begin the call with a brief overview of the financials of the quarter under review, followed by strategic initiatives and operational outcomes. After that, like always, I will hand over the call to our CFO, Mr. Srinivas Palakodeti, to discuss the financial performance in greater detail. This will then open the conference call for the Q&A session.

Some of the key highlights of the current financials, which I would like to share upfront are, one, YTD operating revenues were up by 10.9%; two, the YTD reported EBITDA was up by 81%; three, YTD pretax and post-tax profits were up 44.5% and 32%, respectively; and four, YTD generated free cash flow stroke EBITDA of 72% and a gross debt repayment of Rs. 450 million.

I would like to share, like in the past, the second half operating metrics and financials always look better for HGS. And the current financial year is no exception. Our India domestic CRM business is divested as of January 2020. We have reported our quarter 3 FY 2020 financials of the continuing operations as well as financials of the discontinuing businesses so to give you all a better picture of the operations and financials.

If you look only at the financials of quarter 3 of FY '20 of the continuing operations, the reported revenues were up 4.7% sequentially. To that, if we include the about to be discontinued India domestic CRM revenues, then the total consolidated revenue

for quarter 3 FY '20 was up 5% over last year third quarter and 3.5% sequentially. The revenues from the about to be discontinued business actually declined by 2.4% sequentially. Partly aided by the impact of Ind AS 116 and on account of ongoing cost rationalized exercise and improving operating efficiencies, the EBITDA margins on a consolidated basis for quarter 3 FY '20, expanded by 220 basis points sequentially to 15.5%. And over last year, third quarter, it was up by 460 basis points but EBITDA for the quarter 3 was up by 21.4% sequentially and 49.8% over the last year, third quarter.

If you take the EBITDA growth of the continuing operations, it was up 21.8% sequentially, and EBITDA margins were up 220 basis points over the previous quarters to 15.6% and 540 basis points over the last year third quarter. Between quarter 1 FY 2020 and quarter 3 FY 2020, on a consolidated basis, we have expanded the EBITDA margin by 390 basis points. And I am glad to share, for the first time, HGS has reported an EBITDA of more than Rs. 2 billion in a quarter. Even if we were to look at the EBITDA of the continuing businesses, it is just short of Rs. 2 billion per quarter. Though there were no adverse impact of Forex from the other income and no one-off tax demands, we have provided for goodwill impairment and yet, net profit on a consolidated basis for quarter 3 FY 2020 were up 93.7% over last year, third quarter and 44.9% over the previous year. The net profit of the continuing operations and about to be discontinued operations were up 59.7% and 60.5% sequentially over quarter 2 FY '20. The overall impact of the adoption of Ind AS 116 has had a negative impact of Rs. 83 million in Q3 pretax and Rs. 269 million on the 9-month FY '20 pretax profits.

If you recall, during quarter 3, HGS signed a business transfer agreement on November 28, 2019 with Altruist Technologies to sell

the India domestic CRM business for a consideration of Rs. 400 million. In addition, we have shared with you all that outstanding receivables, rental deposits of facilities in India and other accruals to HGS would be recovered through working capital liquidation.

I'm glad to share with you that we have completed the sale of the India domestic CRM business on 31st of Jan 2020 and the eventual consideration value is not a significant variance to what we had shared with all of you on December 2, 2019 conference call. As a part of the transaction, HGS has transferred 32 client contracts over 7,000 employees and assets and 9 delivery centers across Bangalore, Hyderabad, Pune, Mumbai, Noida, Indore and Raipur, with working capital liquidation, this will bring in Rs. 100 crores in cash to HGS.

A quick review of the India international businesses. This strong growth in quarter 3 EBITDA on a consolidated basis of the continuing operations was partly aided by the financial performance of the India International business, which saw strong traction from the existing health care clients. The revenues from this segment were up by 19.2% in quarter 3 over last year third quarter, with organic growth of about 11.6% and Forex another 7.6%.

Sequentially, too the revenue from this segment was strong at an organic growth of 6.7% and a forex impact aiding another 3.3%. What is most gratifying to disclose is the EBITDA margins of India International business for quarter 3 FY '20, were up 450 basis points over last year third quarter and 260 basis points over the previous quarter. Consequentially, EBITDA of India International businesses were up 32% over last year third quarter and 16.4% over the previous quarter.

Coming to U.S. onshore and Jamaican operations, the performance of the U.S. onshore for quarter 3 FY '20 was very satisfactory with a revenue growth of about 12.6% and an EBITDA growth of about 16% over quarter 3 of last year. Over last quarter, the EBITDA margin of U.S. onshore operations in quarter 3 FY '20 were up by 80 basis points to 13.3%. And over the last year, third quarter was up by 40 basis points.

Similarly, we were able to improve margins of Jamaican near shore operations. Over last year, 3rd quarter, EBITDA margins of Jamaican operations expanded by 190 basis points to 13.6% in quarter 3. And over the previous quarter, we have been able to expand the margins by about 230 basis points. This improvement to margins is coming on the back of improved utilization rate and also by increasing the shifts. We have also been seeking higher pricing for our solutions and rebalancing voice revenues with the non-voice revenues.

I'm glad to share with you that the Canadian operations have also turned around, and it's entering a sustainable, profitable phase. Over the past 3 quarters, there has been a steady improvement to **the** quarterly revenue run rate of the Canadian operations. On a sequential quarter basis, the Canadian revenues in CAD were up by 8.2%. For quarter 3 FY '20, the EBITDA of the Canadian operations expanded sharply by 620 basis points and the EBIT expanded by 640 basis points over the previous quarter. Over last year, third quarter, the EBITDA and the EBIT margins Canadian operations of quarter 3 FY '20 are up by 270 basis points.

The strong growth in profitable revenue was led by demand in the health care as well as the consumer engagement services vertical across all geographies. While CES has had ramp-ups from recent client wins, and as a result of festive season healthcare business saw

a healthy growth, driven by strong open enrollment season across U.S., Jamaica, Philippines and India.

Globally, except for U.K., we have a strong capacity utilization in all our businesses. That is the single largest contributor to margin expansion this quarter. The revenues from the top clients for the quarter was up 15% sequentially, and over the last third quarter, it was up by 27%. Similarly, revenues from the top 5 clients for Q3 were up 12.5% sequentially and 9.8% over the last year third quarter. Even if we were to knock off the top clients' revenue contribution from the top total 5 customer revenue contribution for Q3 FY '20, the revenues from the balance 4 have grown at a healthy 11% sequentially.

We would like to reiterate that we expect quarter 4 to be strong for health care as well, as open enrollment is currently on in the U.S. We are experiencing strong traction across health care, especially for voice support in Philippines, Jamaica and the U.S. Based on the feedback, we expect reasonably strong revenue performance in quarter 4 FY 2020 as well. Today, fortunately, we are in an oversold position and are scrambling to add capacity globally.

On the M&A front, Element Solutions, which spearheads our cloud, digital and consulting offerings on a stand-alone YTD basis, reported revenues of USD 13 million, with an EBITDA margin of 15%. As the business from this segment is not only growing, but growing at a healthy EBITDA margin, HGS, during quarter 3 of FY '20, bought an additional 14.3% stake to take the total stake to 71% in Element Solutions.

Amidst all this good news, however, our U.K. business continues to perform below par. The capacity utilization is low. The ongoing

uncertainty on Brexit has been one of the reasons for this situation. Hopefully, things will improve going forward now that the Brexit future is clear. There have also been some delays in signing up new contracts for AxisPoint Health. We have reduced cost of operations substantially. But we thought it prudent to write-down about US\$2.5 million in goodwill that we were carrying forward for AxisPoint. Next year, we expect AxisPoint to turn profitable.

As mentioned in our Investor Day in November 2019, we have downside and repurposed Colibrium into the IT arm for HGS Healthcare, to drive innovation and transformation in our health care businesses. That is going to be a very important component in our strategy to differentiate our offerings in health care. We compete with some of the world's biggest IT firms in health care vertical and, therefore, having in-house IT capability for health care is crucial for its continuing growth.

To share some color on the nonfinancial performance during quarter 3, HGS added 8 new clients across verticals for core BPM services and 6 new clients for its HRO payroll processing services, which is mostly India-centric. We experienced good traction for HGS Digital Services from the existing and new clients. In quarter 3, we signed new deals with 10 clients. Many of our recent contract wins over the last 6 months, mainly with existing clients, have been components of transformation services embedded in it. In terms of new logos, we have been signing new client engagements in India and in other geographies. We have deployed RPA as a service for some clients in the Middle East to be supported from Bangalore and is required from other delivery centers. HGS has made progress in getting clients onto the transformation journey, especially with existing clients. This penetration gives us an opportunity to expand

this addressable market. Our investment in Element Solutions is to strengthen our capability in the digital domain. We expect business transformation-led opportunities to drive higher value-added growth in the coming future.

As we see it, HGS is leveraging its capital and technology innovation to intelligently deliver value for its clients and making a difference to millions of lives every day. We are their strategic partners in the growth story, and we have multiple stories. With a client base of several Fortune 1000 companies in our client fold, we feel confident of the future growth path.

To sum it up, the overall state of our core business continues to be strong, and that is why we have been able to report reasonably strong revenue growth quarter-on-quarter for the past many quarters. Most of our businesses are doing much better than we started at the beginning of the financial year.

Our endeavor would be to expand the EBITDA margins, both of the legacy businesses as well as some of the acquired entities. Over the past 4 quarters, we have seen EBITDA margins been constantly improved. In addition to improving EBITDA margins, our effort has been to generate consistently decent cash flows, which can go for repaying the residual debt.

We are also taking a hard look at our portfolio to evaluate some of the businesses that are not generating adequate returns. Our sale of the India domestic business was a first step in that direction. There continues to be a few other businesses that are below par, and we are looking at those very hard to see if it continues to make sense in the overall portfolio of businesses we run.

With that, I will now hand over the call to Pala, to walk us through quarter 3 FY 2020 and 9-month FY 2020 financials in greater detail. Thank you all, once again, for being with us on the call today.

Srinivas Palakodeti: Thank you, Partha. A very good afternoon to all the participants on the call, and thank you all for joining us on our quarter 3 and YTD post-results earnings discussion. As in the past, we would like to start by repeating, for this discussion, the EBITDA and the EBITDA margins have been computed, excluding Forex losses/ gains, which have been taken as part of other income.

Now we turn our attention to the financials of Q3 FY '20. I hope you have had a chance to go through our Q3 published financials, where the revenues and costs have been split into discontinuing operations, which relate to the India domestic CRM business and the continuing operations, which comprise all other businesses. However, for the purpose of this discussion, all financials are for overall, i.e. combining continuing and discontinuing operations.

On a year-on-year basis, revenues for Q3 FY '20 have increased by 5% over Q3 FY '19. While the growth rate appears muted, the following may be noted. (a) Q3 FY '19 had revenues of USD1.92 million or around Rs137 million from the GuidePoint business. As you may recall, most of the GuidePoint contract was sold off in December 2018, resulting in Rs.311 million of other operating income. (b) Further, the India domestic CRM business revenue fell by 10.7% between Q3 FY '19 and Q3 FY '20. If the impact of the India domestic CRM business and other operating income from sale of GuidePoint contracts are excluded, revenues in Q3 FY '20 grew 10.2% in rupee terms over Q3 FY '19 and around 8.8% in constant currency terms.

YTD revenues have grown 10.9% over YTD December '18. It may be noted that revenues of India CRM business fell by 15%. YTD December 2018 revenues also included Rs. 311 million of Other Operating income from sale of GuidePoint contracts.

Further, YTD December '2018 revenues had around USD7.45 million or Rs. 524 million of revenues from the GuidePoint business. The impact of India CRM business, revenues from GuidePoint contracts and other operating income are excluded, YTD revenues have grown by 15.9% in rupee terms and around 14.6% in constant currency terms. These numbers reflect the strong growth, which the overall business has achieved for HGS.

Revenues of the healthcare vertical grew 9.1% over Q3 FY 2019 and accounted for 54.4% of total revenues as compared to 52.3% in Q3 FY2019. Revenues from the healthcare vertical grew nearly 9% sequentially on account of open enrollment programs.

We have seen strong growth in the BFS sector, where revenues grew 27.3% over Q3 FY 2019. Drop in the telecom vertical revenues in absolute terms is primarily account of the drop of telecom revenues in the India Domestic CRM business.

In Q3FY2020, revenues originating from U.S. and USD denominated grew 6.9% year-on-year basis and accounted for 73.1% of total revenues. Revenues in CAD i.e. Canadian dollars grew 10.4% sequentially, resulting in significant improvement in the profitability of the Canadian business.

Coming to AxisPoint, in Q3 FY 2020, AxisPoint incurred EBITDA loss of USD1.82 million, which is lower than the loss of USD1.96 million loss in Q2. For the 9 months ended December 31, 2019, EBITDA

losses stood at USD5.65 million as compared to EBITDA loss of USD12.65 million for the 9 months ended December '18. This reflects an improvement of USD7 million or around Rs. 350 million, excluding any one-off items. This also reflects the measures for cost rationalization and synergies, which have been put in place.

Coming to Colibrium, EBITDA losses for Q3 FY 2020 came in at USD0.9 million, excluding some one-off costs. And for YTD December 2019, it came at USD2.9 million. Losses for the quarter and YTD December 2019 are lower than loss of USD1.27 million for Q3 of FY2019 and around USD3 million for the YTD December 2018.

Coming to Element Solutions, EBITDA for YTD December '19 was USD2.02 million as compared to USD1.13 million for YTD December '18, an increase of around 79%.

As mentioned by Partha earlier, during the quarter ended December 31, 2019, HGS has increased its stake in Element Solutions LLC from 57% to 71.33%. Further, in Jan 20, the name of Element Solutions has been changed to HGS Digital, reflecting the focus of HGS on digital services and offerings.

Turning to overall profitability. For the quarter ended December 2018, HGS had EBITDA of Rs.1,386 million, comprising Rs.311 million of EBITDA from sale of GuidePoint contracts and EBITDA of Rs. 1075 million from operations.

For the quarter ended December '19, EBITDA from operations increased over 50% on year-on-year basis to Rs1,636mn (pre Ind AS). Taking into account the impact of Ind AS, EBITDA for Q3 FY '20 came in at Rs. 2,076 million.

EBITDA margin for Q3FY2020 at 15.5% as compared to 10.9% for Q3FY 2019 and 13.3% for Q2 FY 2020.

Excluding the impact of Ind AS, EBITDA for on YTD December has increased 38% from Rs. 2,923 million (YTD December 2018) to Rs. 4,043 million. After factoring the impact of Ind AS, EBITDA for 9 months ended December 31, '19 was Rs.5,284 million, an increase of nearly 81% over EBITDA for the 9 months ended December '19. EBITDA margin for YTD Dec 2019 was 13.5% as compared to 8.3% for YTD December '18, an improvement of 521 basis points.

Depreciation for Q3FY2020 (excluding the impact of Ind AS) , came in at Rs.432.9 million lower than 461.7 million in Q3 FY 2019. However, due to impact of Ind AS, the reported depreciation for Q3 FY2020 is Rs. 785.9 million.

Similarly, interest cost for Q3 FY 2020, excluding the impact of Ind AS is Rs. 97.2 million, lower than Rs. 107.2 million in Q3 FY 2019. However, due to the impact of Ind AS 116, the reported interest cost for Q3 FY 2020 is Rs. 266.8 million.

At an overall level, the impact of Ind AS has lowered PBT and PAT by Rs. 82.6 million as compared to Rs.92.7 million in Q2FY2020 and Rs. 94 million in Q1 of FY 2020.

Other income for Q3 FY 2020 came in at Rs. 197.5 million, substantially higher than the negative Other Income of Rs. 324 million in Q3 FY 2019. Substantial portion of this variation in Other Income is due to foreign exchange fluctuations.

Under extraordinary items, there is a noncash charge of Rs. 179.5 million on account of goodwill impairment relating to AxisPoint. After taking a one-time charge of Rs. 179.15 million, PAT for Q3 FY

2020 was Rs. 711.8 million, an increase of nearly 94% over PAT of Rs. 367.6 million for Q3 FY 2019. PAT of Rs. 711.8 million is the highest ever quarterly profits for HGS so far.

For YTD December '19, PAT was Rs.1,607.7 million, an increase of 32% over PAT of Rs. 1,218 million for YTD December '18.

You would have noted, the Board has approved interim dividend of Rs. 15 per share, bringing the total interim dividends for the year to Rs. 20 per share.

Our gross debt as of March 31, 2019, was Rs.5,996 million, which has been reduced by around Rs. 449 million during this 9 months ended December 2019. And as of December 31, 2019, gross debt stands at Rs.5,546 million.

Net debt, which stood at Rs.1,761 million at March 31, 2019 has reduced significantly by Rs1,437 million to Rs 324 million as of December 31, 2019.

At the end of last financial year, debtor days were 83, which dropped to 71 days as of December 31, 2019. CAPEX for the quarter was Rs.360.5 million and for YTD December 2019, the total capital expenditure came in close to Rs. 800 million. EBITDA to free cash flow conversion for the 9 months ended December was 72%.

In terms of ROCE, we have seen a steady increase. For Q1 FY '20, it was 13.8%, pre Ind AS and 13% post Ind AS. In Q2, it went up to 19.6%, excluding the impact of Ind AS and 15.9% post Ind AS. In Q3, excluding the impact of Ind AS, it came in at 21.2%, and post Ind AS, it came in at 17%. This is after factoring into account the onetime goodwill impairment charge of close to Rs. 180 million.

Our endeavor to take more seats on OPEX continues. And at the end of Q3 FY 2020, OPEX seats accounted for around 24% of all the total seats. Our endeavor to increase revenue productivity continues.

At the end of Q3 FY 202'20, our average monthly revenue per employee came in at Rs. 99,328 as compared to Rs. 95,141 for the Q3FY2019, an increase of 4.45%.

With the exit of the India domestic CRM business, this metric is expected to improve further. At the end of Q3 FY 2020, the total headcount stood at 45,435 as compared to 44,218 in Q2 FY '20.

Our endeavors to improve margins and return ratios across geographies and operations in the acquired businesses will continue.

I now conclude my portion and throw the floor open for question and answers. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rangaprasad, an individual investor. Please go ahead.

Rangaprasad: I had a couple of questions. First is what is the effective tax rate for HGS, so on a stand-alone basis and also on a consolidated basis? I find that it is varying from quarter-to-quarter and also year-on-year. Could you please elaborate on that?

Srinivas Palakodeti: Yes. If you see for the quarter ended December, on an overall basis, the tax rate came in at around 33%. And on the stand-alone, it would be somewhere in the range of 27-odd percent. I do recognize there are some variations, especially if you look at Q2, it went almost as high as 43%.

I am not sure if you were there on the call, which we had for post Q2 earnings, where we said there were some one-off items in the tax line. And that can be seen, there is a significant reduction in the tax rate for Q3.

Rangaprasad: So going forward, what is the rate we can expect?

Srinivas Palakodeti: It would be in the range of 27% to 30%.

Rangaprasad: Have you migrated to the new lower tax regime?

Srinivas Palakodeti: We have a number of SEZs which are in different stages between 0 tax to 50% of normal tax. Based on the last evaluation done, we believe we are better off by staying to the old existing regime. But the final decision we will take later, whether to opt for a notional lower tax rate with less exemptions or continue with the exemptions, which we have.

Rangaprasad: The second question relates to Axis Point. I find that when you add both the continuing loss as well as the onetime goodwill impairment, about 60 crores has been debited, correct? On this account?

Srinivas Palakodeti: Yes.

Rangaprasad: So that works out about Rs. 30 EPS for the 9 months. So if we are to assume that next year, we are going to be tax positive, so we can expect EPS to grow by about Rs. 30 for the first 9 months, hopefully?

Srinivas Palakodeti: Okay. As we have said we have the goodwill impairment impact. If you look at the total losses in AxisPoint for the first 9 months, it came in at USD5.65 million. And then there is about USD 2.5 million

of the goodwill impairment. So that is somewhere in the range of about USD8 million.

So as Partha mentioned, we have strong strategic rationale, and we believe the business will turn around in the next financial year.

The goodwill impairment is done more from an accounting point of view, given there were some delays in signing some contracts, and that brought in some uncertainty on future revenues in the absence of signed contracts.

Moderator: Thank you. The next question is from the line of Shri Vallabh Bhaiya, an individual investor. Please go ahead.

Shri Vallabh Bhaiya: So we are very much welcoming your policy of increasing the dividend by almost 6 times. So what would be the policy going forward if you continue performing like this, how will be the impact on dividend to be distributed henceforth?

Partha DeSarkar: Sir, we have been taking feedback from our investors on the fact that we need to increase our dividend. And that feedback has been taken on Board which had approved dividend of Rs. 15/share. We are having ongoing discussions with the Board to see whether there is a need for us to announce the stated dividend policy. That discussion is inconclusive as of this point of time. We did not come to a decision. So I don't think I will be able to give you a yes and no answer to this question right now. Let me just answer this question by saying that we are discussing with the Board, and we will keep our investors updated on any new development that we have in this matter. So unfortunately, I'm not able to give you a more conclusive answer.

Shri Vallabh Bhaiya: But you think that you will be able to repeat this performance in the quarters to come?

Partha DeSarkar: See, we have visibility for Q4FY2020. Quarter 4 is also looking very good. So while we can't give you specific guidance going forward because that's against our policy, we do believe, quarter 4, as we stand today, on 10th of February, is looking very good.

Moderator: Thank you. The next question is from the line of Varun Baid from Laurel Investments. Please go ahead.

Varun Baid: Can you throw some light on the margins once again, although you did mention it during your presentation. Can you be slightly more granular as to what were the levers that led to this margin performance? And are we expecting this margin to be sustained for the future?

Partha DeSarkar: So I did mention large part of the margin expansion has been on account of very high capacity utilization, and that has come because of good growth. So whatever the capacity that we had, we have billed up most of that capacity. And as we stand today, we are in an oversold capacity, which means that we have actually sold more.

That is primarily the reason why we have been able to improve the margins. The other area of focus was to reduce losses in some of the key businesses that have been loss-making in our portfolio. So those also, we have been able to pay down our loan losses, reduce the cost of those operations. So, combination of these two factors, better capacity utilization in most of our businesses and great focus on reducing costs and paring down the losses in some of the few businesses that are loss-making in our portfolio. Combination of

these two factors actually have led to the margin expansion that you are seeing.

Varun Baid: And from a capacity perspective, where do we expect ourselves to be maybe one year down the line now that we have already fulfilled our existing capacity?

Partha DeSarkar: See, we have visibility for growth coming in Philippines; we have visibility of growth coming in U.S., also in Jamaica, maybe in Colombia. So it's a little bit of a crystal ball gazing, but this is the visibility that we have today for the next 1 year. So, it will be across the board.

Even in India, we should be able to grow our business even though we have actually reduced our footprint of India by divesting the domestic business. But the international business in India has grown quite well in these 9 months, and that is also expected to grow.

Varun Baid: So if we were to translate this into the number of seats, then where would you put yourself maybe a year down the line in terms of number of seats?

Partha DeSarkar: That is not something that I will be able to tell you now because we don't do that kind of future forecasting. So it's not a number that I can share with you right now.

Varun Baid : Okay. And in terms of pricing, has there been some northward movement on that with our key clients?

Srinivas Palakodeti: Yes. As and when each client comes up for any renewal, we do take up pricing discussions. And we are also moving up in terms of the kind of work we are doing and going up the value chain.

Varun Baid: Okay. Are there any further levers that we have to further move up the value chain? And what are those levers, if maybe you could throw some light for us?

Srinivas Palakodeti: So as Partha mentioned, while we are running at fairly high capacity in most of our businesses. Given the situation in U.K. and the whole uncertainty about Brexit, we clearly have excess capacity there. And any growth in revenue would help drive the margins for U.K. business.

The other levers are really looking at what we can do from our overall footprint and there are sites which we could consolidate. And if it is in a market like U.S. or Canada, we could go into more of the “Work from home”, which we have done quite successfully, especially in Canada. That gives us the ability to hire from a larger footprint. So, these are a couple of levers which we have.

And we are also looking to see what could be done in terms of work from home, so that our needs to add more and more office space comes down.

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

Subhankar Ojha: I wanted to understand about the Canada operations, where you have seen a 600 basis point of margin improvement on your 11% revenue growth. How have you done this in terms of the incremental margin and how sustainable these numbers are?

Srinivas Palakodeti: Thank you, Subhankar. So on a sequential growth, we are seeing substantial growth in revenues in Canada. So there are volumes, which were given by the client. We have people on training towards September, October, November. The training got over, and we were

able to deliver substantial revenues, especially in the month of December. And we see some of it continuing into Q4. But there is some seasonality in the business. So we will have the spillover for some portion of Q4 as well.

Subhankar Ojha: Okay. Also, you said there is, like that you have done for the India CRM business, so is there any further scope for us to cut down on the loss-making or low-margin business? I think you did say something about it, but I missed out.

Partha DeSarkar: Yes. Even in the Investor Day in November, Subhankar, you would recall, I made the point, saying that we continue to evaluate the businesses that we have in our portfolio to see which are the ones that we want to invest further in, which are the ones that we don't want to invest any further in, and we should look at divestment. So that is an ongoing evaluation.

To be honest, we haven't really divested anything in the past. In a way, some of the contracts of AxisPoint last year and the India Domestic CRM business this year, have been our first attempts at divesting some parts of the portfolio, which were not strategic to us. So that is an ongoing exercise, and we will continue to look at businesses and take calls as we believe is necessary.

Moderator: Thank you. The next question is from the line of Navnit Bhaiyya, an individual investor.

Navnit Bhaiyya: I just had one question. Partha, in your opening comments, you had mentioned that you were mostly oversold in most of your capacities across regions, except the U.K. So I just wanted a view on how much capacity increment are you planning over the next 2 years or so to fuel your growth? And how much investment would it take?

Partha DeSarkar: See, our CAPEX will be in line with the CAPEX in the last few years. I don't think it is going to be fundamentally different from that. So our annual CAPEX would be in the Rs180 crores- 200 crores range, right?

Srinivas Palakodeti: No. It will be much lower.

Partha DeSarkar : Lower. Okay.

Srinivas Palakodeti: Because on a YTD basis, we have got about Rs 80 crores of capex. So even Q4 is a little more, it will definitely be lower than what we have done in the gone in the past in terms of a Y-to-Y basis.

Partha DeSarkar: Okay. So yes I mean, , it would be safe to say that we would definitely be looking at growth in Philippines. We would look at growth in U.S. and Jamaica, EMEA and in India. We may not see too much of growth in U.K. We may look at a few other geographies. For example, we may look at 1 more destination in South America and maybe a small site in Eastern Europe. These are, right now, on the drawing board. And beyond that, I am not able to give you any concrete numbers.

Navnit Bhaiyya: Okay. So no percentage that you can ride on in terms of capacity increment that you are planning on. I understand contracts may decide, but capacity increments?

Partha DeSarkar: Yes. It will be around usual lines. It's not going to be exceptionally different from what has happened in the past. So this year, how many seats have we added? I think this year, the numbers are a bit skewed because of the divestment that we did because we gave up about 7 centers. So the numbers of seats have also gone down.

Srinivas Palakodeti: It's actually gone down by 1,000 over the year.

Partha DeSarkar: Yes. So on a net basis, it's actually gone down because of that. But typically, we have been adding, I would say, it would be safe to assume that it will be a replica of the past, which has been approximately about 1,000 seats every year.

Srinivas Palakodeti: 1,000 to 2,000.

Partha DeSarkar: 1,000 to 2,000 seats every year in the past.

Moderator: Thank you. The next question is from the line of Ashish Agarwal, an individual investor. Please go ahead.

Ashish Agarwal: Sir, could you please throw some light on the percentage of voice versus non-voice CRM business, post-sale of India CRM, which happened in January 2020, with regards to revenue numbers and EBITDA numbers, if you can just help me out?

Srinivas Palakodeti: Okay. So, if you look at our India domestic business, the business which we sold off, revenues are in in Q3 FY 2020 are in the range of Rs .72 crore. So it is in the range of about 4%-5% of the overall business. And that is all predominantly voice. Right now, we have roughly about 72% voice and 28% back office and non-voice CRM. So that is the adjustment you would need to make going forward. And bear in mind, when the results for Q4 come up, we would have one month of the India domestic CRM business. But if you look at Q3 and remove Rs,72 crores, roughly, of India CRM business, which is all voice, almost everything was voice, that will give you a sense of where the numbers would stack up.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. R. Ravi for his closing comments. Over to you, sir.

R. Ravi: Again, Ravi here. Thank you all to all the participants for joining us in the post-results conference call. If there are any further questions or clarifications about the Q3 FY2020 '20 or 9-months FY 2020 financials, please e-mail me or to Pala, the CFO, and we are more than happy to get back to you. This is Ravi signing off on behalf of the HGS management. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Hinduja Global Solutions, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

Note: This transcript has been edited to improve readability. For the sake of brevity, the edited version of the above content has certain abbreviations/abridgement of words and sentences.