Hinduja Global Solutions
Q1 FY2015 Earnings Conference Call

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Management: Mr. Partha DeSarkar – CEO, Hinduja Global Solutions

Mr. Srinivas Palakodeti – CFO, Hinduja Global Solutions

Moderator Ladies and Gentlemen, good day and welcome to Hinduja Global Solutions' Q1 FY2015 Earnings Conference Call. 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 the conference call, please signal an operator by entering '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bijay Kumar Sharma. Thank you and over to you, sir.

Bijay Kumar Sharma Thank you Melissa. Good afternoon and welcome everyone to Hinduja Global Solutions' Q1 FY2015 Earnings Conference Call. Joining us today on this call are Mr. Partha DeSarkar – 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 the considerations, please refer to our Earnings Presentation. Now I would like to invite Mr. DeSarkar to provide his perspective on the performance for this year. Over to you, Sir.

Partha DeSarkar Thank you Bijay, and welcome everyone to Hinduja Global Solutions' Earnings Conference Call for Q1 FY2015. I hope that you had a chance to review our presentation and financials, which are available under the investors' section on our website. I would like to start with an overview of this quarter's financials, followed by the operational highlights across geographies. After that, I will hand over the call to our CFO – Mr. Srinivas Palakodeti to discuss the financial performance in detail. We will then open up the call for an interactive Q&A session.

I am pleased to inform that we started the new fiscal with a robust business performance. Building upon last year's strong performance, we reported total revenue of Rs. 6,662 million in Q1, representing a growth of 19% on a year-on-year basis. This growth has been driven by a combination of enhanced volumes across existing clients, addition of new logos and a better demand scenario. On a constant currency basis, revenue growth was 14.5%.

Our consolidated EBITDA for the quarter stood at Rs. 765 million, representing a year-on-year growth of around 21%. This growth was driven by better capacity utilization levels across all geographies and delivery centers. Our EBITDA margin for the quarter was 11.5%. Strong top-line growth during the quarter, and various performance management and cost control measures undertaken during the last year has led to these strong margins.

Our consolidated PAT for the quarter was Rs. 325 million, a decline of about 14% compared to the same period last year. This was primarily due to a higher depreciation charge of approximately Rs. 50 million, caused by implementation of provisions of the new Company's Act, which has prescribed higher rates of depreciation. On top of that, our other income was impacted by lower exchange rate. This also had an adverse impact on our consolidated PAT.

Moving on to verticals and geographies, our healthcare vertical continues to perform well both in India and Philippines. We started servicing a new healthcare client from India in the beginning of Q1 FY2015. The implementation of the Affordable Healthcare Act has led to strong growth in volumes from existing healthcare clients. This resultant strong demand for healthcare services has enabled us to add capacity in India and Philippines. A new center in Alabang, Philippines has become operational in July, 2014.

Our healthcare practice on the clinical side is also showing increased traction. Our clinical services include nurse reviews, coding reviews, pre-authorization and clinical helpline. These are all very high-end services requiring highly skilled and trained nurses or certified coders. This is an exciting emerging area for us and we see a lot of growth in the future from these services.

In telecom, our volumes in the India domestic business are seeing encouraging growth. In Philippines, we are starting two new pilots for an existing client. This is in the area of cable TV and TV on internet. But in Canada, the telecom volumes were lower than expected. We do see the Canadian volume returning in September.

In consumer electronics, it is a mixed bag. As we have been mentioning in our earlier calls, we are seeing softness in volumes from our existing clients. But the encouraging news is that we have been able to win some new brands as well and part of the overall volume drop has been compensated by these new clients.

Now I would like to discuss the operational performance of our geographies. Our US operation continued its strong momentum, driven by a significantly improved demand scenario. I am pleased to report that during the quarter, we saw a major client win from a large financial services company for US-based delivery services. Though it is a small beginning now, we expect this client to scale up significantly in FY2016.

In order to deliver the large volumes anticipated from this financial services client, we have signed a lease for a larger facility in El Paso, Texas. The existing El Paso center will be closed down in due course and all operations will be moved to the new, bigger facility. Further, one of our existing healthcare clients has given us new lines of business for onsite delivery, making it the first large onshore healthcare client. Servicing for this client started this month. We are encouraged by the expansion of our healthcare footprint onshore as it opens up new possibilities for our healthcare vertical.

As a part of our overall strategy in the US, we are reviewing all accounts and exiting from unprofitable ones. We expect to exit all key unprofitable accounts by November 2014. The focus for the rest of the year would be to enhance gross margin and management of overheads. We continue to invest in new logo sales and account management. Our pipeline for onshore and offshore delivery remains robust and we are expecting to add more new logos by the end of this fiscal year.

Taking about our Canadian operations, Q1 revenues were subdued on account of the seasonal downswing in the lines of business handled by HGS Canada for its telecom clients. The management team is focused on streamlining all costs, other than sales development expenditures, to manage profitability better. We are making investments in our sales and marketing efforts to drive quality pipeline from existing as well as new clients, which we expect to bring to fruition later this fiscal year.

In Q1, we added 210 additional FTEs to manage increased volumes for new line of service wins from existing clients. We are ramping up our training engine to meet the expected volumes in Q2 and onwards. The recent capacity requirement plans from our telecom clients indicate strong volume growth by the second-half of the fiscal year.

Performance of our UK operations improved significantly during the quarter. A new contract with the UK government went live in April, 2014, and has progressed well during the quarter from an operational and financial point of view. HGS provides voice, email and chat customer contact services for this client. We also finalized a contract with a major consumer brands company, which is scheduled to go live in October 2014. HGS UK has also developed new opportunities with a large telecom client in both the consumer and commercial sectors. Looking ahead in this market, we will focus on government, telecom and consumer sectors, where we see strong growth this year. In recognition of the success of our operations in the UK, I am pleased to report that we were adjudged the ‘Best Large Contact Center’ in the EMEA finals of the Contact Center World Awards 2014. Last year, we had won the same award in the medium size category. This is a reflection of our growing maturity in the UK market, where we have been present for the last four years only.

HGS Philippines operations continued to ramp-up due to strong demand from US and Canadian clients, especially in the healthcare sector. The US healthcare reforms and implementation of the Affordable Healthcare Act has led to strong growth and volumes for existing as well as new lines of business from our existing healthcare clients. Business and demand outlook for healthcare clients remain strong and HGS Philippines is gearing up for the Open Enrollment season in the later part of FY2015.

In January, 2014, HGS Philippines had opened two centers at Alabang with around 800 seats. These seats are now operating at optimal levels to service existing clients from the BFSI and consumer electronics sectors. Some of the agents at the site are still under training and the benefits from these agents are expected to accrue through the rest of the fiscal year.

Philippines has now become one of the most preferred delivery destinations and keeping in view the growing demand, we opened a third center with 250 seats in Alabang in July, 2014. Considering the robust pipeline and potential new lines of business, HGS Philippines is evaluating the launch of another center in the fourth quarter in Alabang.

The performance of our India International business remains strong, driven primarily by our healthcare clients. Our EBOS business has signed two new clients for account receivable management services. EBOS clients which were earlier being serviced from India are now being serviced in a small way from Philippines. We are seeing increased demand for new lines of services from existing clients and the pipeline for the EBOS business appears promising.

The India Domestic business reported stable performance during the quarter. Our profitability improvement measures undertaken during the last year have started yielding results, which is reflected in the significantly improved profitability. One of our telecom clients has awarded us a new line of business to service its premium customers. We also added clients in non-telecom sectors such as loyalty solutions, NGOs, banking & financial services, consulting and medical equipment business.

In summary, HGS has delivered another robust quarter, driven by strong performance across all geographies. Despite the first quarter being a seasonally slow quarter, we saw strong volume growth across existing clients and some major client wins. Most of our facilities are operating at optimum utilization levels which have aided our margins. In fact, we are adding capacity in Philippines due to the growing demand for our services.

With our ongoing focus and investment in sales and marketing, we have been able to build a strong sales pipeline across verticals. This gives us the confidence of demonstrating strong growth along with improvement in profitability and margins going forward.

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 and thank you for joining our Q1 FY2015 Earnings Conference Call. As you are aware, the first quarter is traditionally a slow quarter for us. Despite this, we have reported a robust financial performance. Our consolidated revenue for the quarter was Rs. 6,662 million, an increase of 19.1% compared to the same period last year. In terms of exchange rates, the average rate for the US dollar to the rupee was Rs. 59.86 compared to Rs. 56.57 in Q1 FY2014. Average exchange rate for the Philippine peso (PHP) to the US dollar changed from PHP 42.20 for the quarter ended June 2013 to PHP 44.01 for the quarter ended June 2014. As of 30th June, the US dollar to the rupee rate was 60.08 while dollar to the peso rate was 43.68. On a constant currency basis, our revenue growth for the quarter as compared to the same period last year was 14.5%. Offshore business accounted for around 39% of the total revenue.

In terms of geography, in Q1 FY2015, US contributed 62% of the total revenue compared to 60% in the same period last year. Canada accounted for 19% compared to 22% for the quarter ended June 2013. UK and Europe accounted for 11% compared to 10% for the quarter ended June 2013. Of the remaining, the India CRM business accounted for 6% and the HRO business from India accounted for 2%.

The increase in share of US-originated business was driven primarily by healthcare clients, influenced by the US healthcare reforms. Share of revenue from the UK and Europe has increased marginally due to better volumes, especially from the public sector space. This also indicates the overall improvement in the demand scenario in the European region. While both Canada and India originated revenues have increased, a faster growth seen in the US and the UK originated revenues have led to relative decline in revenue share from Canada and India.

Strong growth of revenue from a healthcare client has led to the healthcare vertical accounting for 32% of total revenue compared to 28% for the quarter ended June 2013. The contribution from the telecom and technology vertical declined from 32% in the quarter ended June 2013 to 29% in the quarter ended June 2014. This drop is due to relatively slow growth in Canada and the portfolio rationalization initiatives undertaken by us. Contribution of revenues from the consumer vertical declined marginally from 16% in the quarter ended June 2013 to 15% in quarter ended June 2014 due to softness in volumes from our clients. The contribution from other key verticals was unchanged, namely banking & financial services at 8%, media at 7%, chemicals & biotechnology at 3%.

Our consolidated EBITDA for the quarter increased by 20.7% y-o-y to Rs. 765 million with growth in EBITDA across almost all geographies. We are seeing a strong demand for services from Philippines and we had about 500 people under training during the quarter. The cost of these people under training, pending realization of revenues, is estimated at roughly Rs. 40 million. Further, we are expanding our El Paso site in the US as new clients are expected to scale up during this year. Our EBITDA margin for the quarter was 11.5%, an improvement of 15 basis points compared to the same period last year.

Employee benefit expenses for the quarter increased by around 18% compared to the same period last year to Rs. 4,533 million. This increase is primarily due to increase in headcount across geographies and salary revisions, effective 1st April, 2014. However, as a percentage of sales, employee related expenses have declined marginally from 68.6% in the quarter ended June 2013 to 68.0% in the current quarter.

As you are aware, the Company's Act has notified new rates for depreciation of fixed assets which have become effective April, 2014. The new rates specified are higher and resulted in depreciation expenses of Rs. 278 million, an increase of 44% compared to the same period last year. As a percentage of revenue, this accounted for 4.2% in the current quarter compared to 3.5% in Q1 of last year.

Our finance charges for the quarter were Rs. 108 million including certain one-time costs, compared to Rs. 91 million in the same period last year. Other income for the quarter ended June 2014 has declined sharply by around 57% from Rs. 183 million to Rs. 79 million, a drop of close to Rs. 100 million. This drop is on account of lower foreign exchange volatility as compared to the same period last year.

Our PBT for the quarter was Rs. 458 million compared to Rs. 532 million in the same period last year. PAT for the quarter declined by 13.7% to Rs. 325 million compared to the same period last year. The decline in PAT was primarily due to higher non-cash depreciation charges in accordance with the new Company's Act and lower other income.

Cash flow from operations after factoring working capital changes was Rs. 971 million. CAPEX for the quarter was Rs. 276 million. Our total debt as of 30th June was Rs. 5,799 million. Our cash and treasury surplus at the end of the year was Rs. 5,555 million; this includes funds of around $49 million from subsidiary HGS International Mauritius, which have been placed as fixed deposits with Bank of Baroda, London.

After factoring the cash and treasury surplus, the net debt stood at Rs. 244 million. Our net worth at the end of the quarter was Rs. 14,938 million, and based on current debt, we have a conservative leverage position of debt to equity ratio of 0.39x and net debt to EBITDA ratio of 0.07x.

The return on capital employed excluding the cash deployed and the impact of changes in the Company's Act on depreciation stood at 14%. Our total headcount as of 30th June, 2014 was 26,803, an increase of approximately 767 employees compared to March, 2014. Of this total employee strength, 59% are based in India, 18% in Philippines, 10% in the US, 10% in Canada, and the remaining are in UK and Europe.

Of the total of 15,735 employees in India, approximately 7,800 are in the India domestic CRM business and the remaining work for India international operations, shared services and the HRO business. It may be noted while our headcount has increased 9.7% compared to the same period last year, our consolidated revenues have increased by around 19%, which shows the increasing non-linearity of the business model. The total number of seats as of 30th June, 2014 was 26,509, an increase of 124 seats compared to March 2014.

With this, I would like to conclude my remarks and open the call for the question and answer session. Thank you very much.

Moderator Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

Pratik Gandhi I have a few questions. On the revenue side, I think it was a strong performance in the current quarter despite Q1 being a seasonally weak quarter. So with the strong start in the current year, how should one expect revenue growth to pan out for the remaining three quarters in FY2015? Secondly, just want to understand how we report our employee cost? If I look at your exchange rate movements this quarter vis-à-vis same quarter last year, it appears to be quite low considering the fact that you have also given wage hike in the current quarter. Thanks.

Partha DeSarkar Let me answer the question on revenue and then I will hand over to Pala for the cost related question that you asked. As far as revenue is concerned, the first quarter has historically been our lowest quarter. So this time has been a very encouraging sign. Our revenue has grown not only in comparison with the same quarter on a year-on-year basis but also on a quarter-on-quarter basis with the fourth quarter, which has always been our highest performing quarter. So even if you take out the impact for foreign exchange, our organic revenue growth is about 14.5%, which is a good way to start the year.

We do believe that our healthcare revenue will continue to be very strong because the open enrollment session actually starts from 1st of October and a lot of the costs sitting in the system is actually going to convert to revenue starting from the third and fourth quarter. That's on the healthcare side.

On the telecom side also, we are looking for volumes in Canada to improve in Q3 and Q4. Generally, Canada volumes are a little slow in Q1 but this year the volumes are quite slow on Canadian side, which I have mentioned earlier. . So with Canadian volumes recovering and the healthcare volumes supported by start of open enrollment session in Q3 and Q4, we believe that the revenue growth this year will also be as strong as last year if not better.

Pratik Gandhi Sure. So basically you are saying that at least 25% growth rate may not be a challenge for you in the current year in rupee terms?

Partha DeSarkar If the Canadian volume recovers, then we should be able to give good revenue numbers. I would not specifically comment on a number because we do not give guidance but we do believe that revenue growth will not be a challenge.

Srinivas Palakodeti Pratik, Pala here. If you look at the number of employees in this quarter compared to where we were in June 2013, the number of employees has increased roughly by 10%. Now this was at an overall level. The growth was primarily in Philippines with India domestic at around the same level. Growth was seen in different geographies but Canada has not increased too much. If you look at it in one way, 10% growth in headcount has been accompanied by an 18% growth in employee cost. But compared to that, there is 19% growth in revenue. Expenses as a percentage of revenue, which in our business is a better way to look at it, has actually come down from about 68.6% to 68.0%.

Also, there are a number of people who are under training, especially in Philippines for the healthcare business. So you should view all numbers from that perspective.

Pratik Gandhi Pala, just to drag this point further, you said that this quarter you gave wage hike. I was just looking at the number in terms of exchange rates. For example, exchange rate in the current quarter was round 60 versus same quarter last year was around 55. So I am just curious to understand that despite such a huge swing in the exchange rate, we are not seeing any significant change in your employee cost.

Srinivas Palakodeti Just to give you a sense, it also depends where the employees have been added. If I look at UK, it has added 30-40 employees, Europe added about 200 and the US has added about 200. But Philippines added about 1,100 and India has added roughly about 800 people. So obviously the salary structure is different in different geographies and the effect of conversion would also show up once they translate everything back into employee cost.

Pratik Gandhi Okay fine, I will take this offline. Secondly, in terms of margins, with wage hike already effective in the current quarter and I think with revenue growth rightly to pick up in Q3 and Q4, and healthcare and even telecom clients starting to give good business, how should one look at margin trajectory over a period of time?

Srinivas Palakodeti We do not give guidance but if you go back two or three years or even earlier, typically Q1 and Q2 tend to have soft margins and there is substantial pick-up in Q3 and Q4. Just to give you a perspective for the quarter ended June 30, 2013, which was the first quarter of the last financial year, the EBITDA margin was 11.3% and we ended the full year at about close to 13%, going all the way to 14% in Q3 while Q4 was slightly lower. So that is how the pick-up has been and there is not much difference from a pattern perspective even in the earlier years.

Pratik Gandhi Sure. Thirdly, in terms of depreciation, this time was more to do with inclining our numbers vis-à-vis the revised Company's Act. Should one expect this could be the run rate going forward?

Srinivas Palakodeti If I look at my CAPEX this quarter and the CAPEX last quarter, they are in the same range… in the Rs. 25 crore – Rs. 27 crore range. So my CAPEX has not really changed between this quarter and same period last year. But what is changing is having to provide accelerated depreciation as per the Company's Act.

Pratik Gandhi And in the opening remarks, you did mention that we will be giving away the existing facility in the US and move all the people to the new facility. Also we did mention that we are moving away from unprofitable business by November especially in the US. So how much of that will impact our revenue in the current year?

Srinivas Palakodeti As Partha mentioned, we are starting a new contract with a financial services company and what we found was that some of the cost structures in the existing facility were on the higher side. So we are going to shut down and move to a new location. In parallel, there is also an exercise going on of reviewing unprofitable accounts. We would exit one of them… it is currently in the rampdown stage and we would exit that by November.

Pratik Gandhi	Sir, so it is basically only in one particular account you want to exit, not multiple accounts?
Srinivas Palakodeti	Yes, the portfolio churn is an ongoing activity but this was a large one. Hence, we have mentioned it.
Pratik Gandhi	Okay and how much will that impact your revenue. Despite that, you have shown this kind of growth, which is quite commendable?
Srinivas Palakodeti	The ramp down has started but it just started around May, and will come through to November. That is the phasing out.
Pratik Gandhi	Okay. And may I know from which vertical it is?
Srinivas Palakodeti	Telecom.
Pratik Gandhi	Telecom. And surprisingly on India side also, we basically again got back with one telecom client to provide premium service. I think if I recall, our plan earlier was to move away from India domestic business, which was largely unprofitable in nature?
Srinivas Palakodeti	Yes, but this one has come at a much better price point and is a premium service. What we have said is we will be cautious in terms of what we do on the India domestic side and be stringent in terms of the commercials before we start adding new business. This definitely met the parameters, which we have, and hence we started it.
Pratik Gandhi	Sure. Lastly, couple of data points. What will be the full year CAPEX number, and what will be the likely tax rate for current year and next year? Thanks.
Srinivas Palakodeti	Our first quarter CAPEX was about Rs. 27 crore and we think we will be in the same range each quarter. This also factors in the sum of our expansion, which has been planned looking at the growth in business, especially in Philippines. Tax rates would be what you are seeing - somewhere in the 28%-29% of PBT.
Pratik Gandhi	Over the year, this year and next year?
Srinivas Palakodeti	Yes.
Moderator	Thank you. The next question is from the line of Ankit Kedia from CRISIL Limited. Please go ahead.

Ankit Kedia My question relates to the revenue first. You have mentioned the two clients added in the US or in the UK. Also in Philippines, you are seeing better traction from the US and Canadian clients. So what would be the overall additional revenue stream from these clients in the current year?

Partha DeSarkar Are you talking about additional revenue from these new clients?

Ankit Kedia Yes.

Partha DeSarkar Revenue from the financial services client this year is not going to be a big amount because it is starting small. But I think the full ramp up effect will be available next fiscal.

Ankit Kedia Okay. And regarding other clients in the Philippines and in the UK, would you see a significant traction in this year?

Partha DeSarkar Our revenue growth numbers in Q1 are at 19% and I am very encouraged by that, considering the fact that Q1 has always been historically low. We believe that this year is going to be a year of strong growth and if the Canadian volume actually picks up in Q3 and Q4, then it is going to be truly very strong. The Canadian volume generally is not as low as it is this year, so we were a little concerned about Canada. But from whatever indications we have, we will recover in Q3 and Q4. If f that recovery happens, our growth will be very strong.

Ankit Kedia When Pala gave a guidance regarding the CAPEX, he mentioned that it includes the expansion in Philippines. So does it also include any outlay for the shifting to a new location in the US?

Partha DeSarkar There is no significant CAPEX for the move because it is a plug and play facility. Actually, the operating cost of that facility - even though it is bigger than our current facilities - is actually lower than our current facility. That was an old lease… a 10-year lease, which we got locked into when we bought that company. It just expired and the current lease rentals are lower than what we had for the earlier facility. So even though it is a larger facility, it is a plug and play facility, which means that CAPEX will be minimal and OPEX will actually be lower than what we had earlier.

Ankit Kedia Okay, got it. And thirdly, you mentioned the employee cost as a percentage of sales had come down both on Q-on-Q and Y-on-Y basis. I see the other expenses have gone up, so just wanted to have some more color on that.

Srinivas Palakodeti On the published page, there are those three heads but this would typically include things like rent, utilities etc. We are opening up new facilities and as we said, in Canada, volumes are lower than expected. Hence all the fixed costs would continue. All the other costs go under this head (Other expenses). Additionally, we have been investing in sales and marketing which would also come under other expenses.

Ankit Kedia Okay. So is it safe to assume that we would see a similar number around this in the coming quarters as well?

Srinivas Palakodeti Yes. Right now, if I see for this quarter and take that as coming in at about 20%...

Ankit Kedia Yes.

Srinivas Palakodeti So some of these are where revenues will come in at a later date.

Ankit Kedia Okay. Basically in absolute numbers, this could be a benchmark for the entire year because as you mentioned, it consists mostly of fixed charges and employee cost, which are there in the selling and distribution.

Srinivas Palakodeti Again I would look at it as a percentage of revenue. Whether it is quarter ended June 2013 or quarter ended June 2014, they have come in at about 20% of my revenue.

Ankit Kedia Yes, correct. So would that go down?

Srinivas Palakodeti I would not see too much variation from percentage or revenue perspective. If I take for the full year, then that percentage is coming in the range of about 19.5%. So it is going to be in that range…Again, I would look at it as a percentage of revenue rather than an absolute number.

Ankit Kedia Okay. On the EBITDA margin side, you mentioned that we took various cost control measures last year to improve the efficiency of the operations. But I see just a 15 basis points improvement in the margins on a y-o-y basis. We were expecting a better growth in the margin but it was just 15 basis points… Are we expecting to improve it further? Just wanted to have more insight on that...

Srinivas Palakodeti As said earlier, we are seeing growth in Philippines and we have people on rolls undergoing training with revenue expected to come in at a later date. That is one of the drivers that has impacted the EBITDA margin for the quarter. Similarly in Canada, where you know all costs are higher, if I have people sitting, waiting for calls and volumes have not come as forecasted, that is another factor which can eat up margin. But as we said, this is a lean quarter and if you look back, we have typically had Q2, Q3 EBITDA margins historically growing. So we believe that the trend would continue in FY2015.

Ankit Kedia Okay. My last question is on the hedges…for what period do we have the hedges in place?

Srinivas Palakodeti We typically take hedges for up to about 12 months in India. Right now we would be taking hedges for the month of August 2015.

Moderator Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon Couple of questions from me. One is on the slight decline in headcount in Canada and the other on sharp increase in Philippines. Can we assume that some of those rampdowns in Canada is associated with the ramp up in Philippines or is it just a function of the low volumes in Canada?

Partha DeSarkar It is a combination. There were lower volumes than we expected in Canada which is reflected in the fact that we have rationalized headcount there. Also, a bit of the Philippines volumes from our financial services client has moved offshore to Philippines. That also accounted for the headcount reduction. So the answer to your question is a combination of both.

Ravi Menon And again some more color on what exactly is causing this slightly lower than expected volumes in Canada telecom, is it like an industry-wide issue or is it a particular issue that your own client is facing?

Partha De-Sarkar This is something that we saw two years back when we had a similar situation in Canada and the volumes recovered in Q3 and Q4. So we are in a similar situation and the expectation is that the volume will recover in Q3 and Q4.

Ravi Menon So it was driven by say, the number of customers who sign on or what really drives your volumes?

Partha DeSarkar No, it is due to seasonality driven by the weather. The holiday season typically sees a pickup of volumes.

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

Shubhankar Ojha Basically I have one question. With say 25% kind of revenue growth, what kind of margin do you see in terms of margin expansion? I mean to say over the FY2015, what are the levers that we have for the margin expansion. I do not want a number per se but what are the levers we have in place to improve the margin?

Srinivas Palakodeti We ended FY2014 with EBITDA margin of close to 13%, 12.9% to be more exact. One clear lever is looking at the portfolio of accounts, identifying the ones with low profitability and either improving them or we exit from such clients. We spoke about doing an exit of a large client in the US. Second, we expect volumes in Canada to come back in the second half of the year. That is something, which would help absorb the fixed costs better. Thirdly, we have a lot of people under training, especially in the healthcare sector in Philippines and some in India. We are waiting for volumes to come from Q3 and Q4 onwards, once the enrollment season starts.

Shubhankar Ojha Okay. Secondly, I missed out the CAPEX numbers. Sir, if you can repeat them?

Srinivas Palakodeti The CAPEX for the quarter was about Rs. 27.6 crore.

Shubhankar Ojha No, I missed out the guidance actually for FY2015 CAPEX.

Srinivas Palakodeti I said that we should be in the same range for each quarter.

Shubhankar Ojha All right. Lastly, in terms of debt repayment, we had repaid Rs. 54 crore this quarter. What is our run rate for the financial year in terms of debt repayment?

Srinivas Palakodeti We have an agreed repayment schedule, which would be different for various loans. But they would see reduction from 2018 onwards. Also, some of it would remain because those are in the range of working capital financing. For instance, let's say we are growing at 18% to 20% in this quarter… the working capital financing would also increase.

Shubhankar Ojha Okay. And I missed out this organic growth of 14.5%. If you have shared that growth geography-wise. That is a significant number… so has 14.5% largely come from our US operations?

Srinivas Palakodeti It's US-originated business because the growth may have been delivered in India, Philippines or in the US. But the way to look at it is that all countries have shown growth if I look at geographies. It is just that US-originated business, especially healthcare, has grown faster. Hence the share of revenues in US has gone up from about 60% where we were last year to 62% this quarter.

Shubhankar Ojha All right. And sir finally, does this other income number, include the Forex gain and loss because that is volatile number that keeps on fluctuating every quarter.

Srinivas Palakodeti Yes, I do not know if you had a chance to see the page on consolidated results. If you look at the forex fluctuations, we had a gain of about Rs. 14 crore for the quarter ended June 2013… it has come down to roughly about Rs. 3 crore.

Shubhankar Ojha Okay. So that is why it is Rs. 8 crore versus Rs. 18 crore?

Srinivas Palakodeti Yes, I mean that this was the big driver. Of course, there will be some smaller ones but this was the big chunk.

Moderator Thank you. The next question is from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande My question is primarily related to the Canadian volumes and thanks for sharing the outlook that you do expect it to recover. Just want to diagnose what was the slip up exactly because you mentioned a similar situation two years ago. Then we saw a decline of 5% in rupee terms sequentially but if you include USD-INR, it was probably close to 13%. This is the rate of decline sequentially this quarter as well. So if it was more than expected, then what exactly is the issue there, which sector and what exactly was the reason - meaning was it staffing issues from our side or was it more client related?

Partha DeSarkar It was really client related and the client is a telecom client. It is not the first time this is happening. We have seen it two years back too but the volume did come back in the second half of the year. Our outlook even this year is that the volumes will be back in the second half of the year.

Ankit Pande So was it specifically related to a product that the client was launching or a service… can you just give me that?

Partha DeSarkar No, it could be a competitive scenario in their marketplace or they might have lost some market share to competition. We do not exactly know what led to that but we have visibility of the fact that it is the largest player in the market. So it is not something that they are going to take lying down, they are going to come roaring back in the second half of the year.

Moderator Thank you. The next question is from the line of Pranav Kshatriya from Religare Capital Market. Please go ahead.

Pranav Kshatriya Sir, I just want to understand how the margins are likely to shape up for this year? If I look at last year, in FY2014 your EBITDA margin started with 11.3% in Q1 and then it subsequently expanded to reach overall margin of 12.9%. Are we likely to see similar growth in the margins and hence similar margins in FY2015 or are there any chances of improving margin further?

Srinivas Palakodeti As we said, there is seasonality. So we expect margins to improve in subsequent quarters. On an overall basis, what we had said in the past is that we are looking to and working towards improving the margin over what we ended last year on a full year basis.

Moderator Thank you. The next question is from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.

Deepesh Mehta Sir, I have three questions. Is it possible for you to share what was the constant currency revenue growth or volume growth in FY2014 for the full year? Second is about rupee dollar intake - if you can provide some sensitivity with 1% change to over margin kind of thing. And third, what would be the rate at which we have bought outstanding hedges? Thank you.

Srinivas Palakodeti On the first question, our revenue in FY2014 grew roughly at about 26%. Of this, 2% is really a timing difference because we had done an acquisition in the second half of FY2013 and we got the full benefit of that.. If you exclude that and the exchange rate fluctuation, our volume growth was roughly about 16%.

Second is on the hedges: we do take forward cover of about 75% of our expected revenue. We take hedges roughly up to about a year forward… so depending on when we have taken the hedge and looking at the outlook, these are in the range of 64 to 66 at a broader level.

The third part is on the total revenue. We have 39% of our revenue with an offshore delivery component, the rest are same shore. Let's say about 8% is India domestic, Canada is about 19% almost entirely… there is a small share going to Philippines but by and large that is Canadian delivery. Then we have UK delivery as well as local US delivery. So the portion which has exposure is as I said about 39%, and the larger portion of this, something around 20% - 21% is India and about 17% - 18% goes to Philippines. So that is what I can say because you know at the EBITDA level or the margin level, there are also other costs involved. It is hard to put and explain it that way. But this should help give you a broad sense about how much of our revenue will have FX exposure.

Deepesh Mehta Okay. In India delivery for the international business, can you help with a similar kind of thing for cost structure?

Srinivas Palakodeti In our business, employee costs are always the biggest portion of our cost and rest is basically other operating costs and depreciation.

Deepesh Mehta No, my question is… You said 39% of the revenue is offshore and the rest is local and delivered onsite kind of thing. So similarly, is it possible for you to share what would be the cost? Because y cost would be incurred in the same currency for whatever would be onsite but what would be the percentage of cost structure contributing to overall thing for the business which we deliver from India,? If you can share that kind of number.

Srinivas Palakodeti No, we do not share those specific details.

Deepesh Mehta Okay, no issues. And last is about the volume growth, 16% is what we reported in FY2014. You suggested earlier that we are likely to do around 25% kind of numbers. So do you expect volume uptick kind of thing??

Srinivas Palakodeti No, I did not give any specifics in terms of 25% growth or any such thing like that. The earlier question was that is there scope to improve the margin… I said we expect EBITDA margins to pick up in Q2 onwards and we are working towards improving the EBITDA margin over the 12.9% which we achieved in FY2014.

Deepesh Mehta No, I am referring to revenue growth. I think in one of the earlier questions you suggested if Canadian volumes pick up, we could maybe reach FY2014 growth number in terms of revenue. So I just want to understand that last year we were at 16% volume and we benefitted from currency. And 2% came from acquisition timing difference, so do you expect FY2015 volume to be better than FY2014?

Partha DeSarkar I won't be able to give you a specific number as we do not give guidance. But given the way we have started the year, it is very encouraging and if the Canadian volumes do come back in the second half of the year, the growth this year is also going to be very good.

Deepesh Mehta Yes, that is what I just want to understand from qualitative perspective… In next two-year kind of scenario, do we expect this volume momentum to be sustained in future?

Partha DeSarkar So, now you want forecast for two years is it? I was talking only of this year.

Deepesh Mehta No, because you do not provide very specific things. I just want to understand if the double-digit number that we have reported for last few quarters is sustainable in future considering the overall demand equation?

Partha DeSarkar Okay. Yes, we do believe that the growth will be sustainable. I can mention our track record. Our track record of growth has been about 25% CAGR for the last five years.

Moderator Thank you. The next question is from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

Pratik Gandhi Few data points, do we share any number in terms of employee hiring target for the current year?

Srinivas Palakodeti No, we do not give any specifics in terms of number of people we would hire.

Pratik Gandhi No hiring target. Okay, no issues. Secondly, in terms of your utilization rate for resources, how would that vary across the quarters?

Srinivas Palakodeti As I said, it depends on how you are measuring it but basically we hire in advance. So depending on the number of the processes involved, people need to undergo training anywhere between six to eight weeks to as high as four to six months. So based on the forecast which we get from our clients, we have to hire accordingly. Today if somebody is under training, those revenues could come three months or six months later. It depends how you want to define that from a utilization point of view.

Pratik Gandhi If I recall, I think it used to earlier be somewhere close to 70% kind of levels. So just wanted to get a sense of whether this is more up or more down?

Srinivas Palakodeti We do have empty seats in different geographies. For instance, since we are going slow on the India domestic business, we have some empty seats in India on the domestic side. Similarly in Canada, there are some empty seats - partly because of lower volume and partly because there are areas, where historically the center was opened (prior to the acquisition) but without a big enough labor pool to support the number of seats which we have. So I think a better way to look at it is to go by what we are witnessing in India International and in Philippines, where we have opened two centers in January, one in July and we are looking to open one more latter in the year driven by growth in volumes. This would indicate that we are running at near optimal capacity and hence we are adding capacity to take care of future demand.

Pratik Gandhi Fair enough. Pala, one more thing. If I just take a conclusion from the earlier comments that the volume growth this year may be equal to that of say last year at around 16%, assuming the Canadian telecom customers bounce back and we have a slight margin improvement in the current year. But looking at the steep increase in depreciation and tax rate, do you believe that earnings growth can surpass revenue growth or do you believe that it will continue to trail in the current year because of these two factors and lower other income?

Srinivas Palakodeti See, lower other income is something that nobody knows about, so that is a complete blind side. The impact of depreciation is what is coming out of as I said a change of the statute. Our focus has really been review of clients, and trying to make assets more efficient and improve the EBITDA margins.

Pratik Gandhi Any color on dividend policy. I think this time around, we have started giving the dividend on quarterly basis. I think even last year we did it but not in the first quarter. Taking this into account, should one expect the dividend payout on a quarterly basis?

Srinivas Palakodeti From a dividend polity perspective, it is obviously something which we haven't articulated and is still under consideration of the Board. Earlier we used to have one annual dividend. Last year, we started giving an interim dividend; two interim dividends and one final dividend. This year, you should look at the interim dividend given at the end of the first quarter from a qualitative perspective. The board will decide at the end of each quarter what is to be done. So at this stage I cannot say anything more.

Pratik Gandhi Anything on improving the payout ratio?

Srinivas Palakodeti That is again the same thing as a dividend policy, right? This is something on which we have got feedback from people like you as well as other people on the call and fund managers, analysts with whom we interact. So that is something which we have communicated to the Board and the Board is deliberating on that.

Moderator Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon Just a question on the client metrics. I was looking at clients who contribute more than 150 million and saw that there has been a slight dip. Is that also due to seasonality or do you think this is something that we have seen in the past or is this due to the Canadian slowdown?

Srinivas Palakodeti I think this is due to softness in the consumer electronics side.

Ravi Menon Okay. Even if I look at +100 million clients too, it has come down on a quarter-on-quarter basis though it is up year-on-year. So is that something that you see?

Srinivas Palakodeti If you are comparing Q4 to Q1 there is seasonality, especially in the consumer electronics sector and some on the healthcare sector.

Moderator Thank you. As we have no further questions, I would like to hand the floor back to Mr. DeSarkar for closing comments. Over to you, sir.

Partha DeSarkar Thank you very much for joining us on this Earnings Call and we look forward to having you back again for our second quarter call sometime in October.

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

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Note: This transcript has been edited to improve readability