

Hinduja Global Solutions
Q1 FY 2017
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 the Hinduja Global Solutions Limited Q1 FY 2017 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 from Churchgate Partners. Thank you and over to you, sir.

Bijay Sharma: Thank you, Ali. Good Afternoon and welcome everyone to Hinduja Global Solutions' Q1 FY2017 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 such considerations, please refer to our Earnings Presentation. Now I would like to invite Mr. Partha to provide his perspective on the performance for this quarter. Over to you, sir.

Partha DeSarkar: Thank you, Bijay. Good Afternoon, everyone, and thank you for joining us on the call today to discuss our Q1 FY 2017 results and performance. We hope that you have had a chance to review our presentation and financials, which are also available under the investors' section of our website. I would like to start the call with an overview of the financials of the quarter, followed by the operational highlights. 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 the Q&A session.

Q1 FY 2017 was a strong quarter for HGS, both in terms of revenue and profitability. HGS posted revenue of Rs. 9,095 million for the quarter, a year-on-year growth of 23.1%. Organic growth accounted for 14%, effect of foreign exchange was 3.1% and the timing difference of the India CRM business acquired in September 2015 accounted for the balance 6%. In our organic rupee revenue growth of 17.1%, around 7.1% growth came from new logos and the balance came from existing logos. The

EBITDA was Rs. 1,066 million, a growth of 96%, while the profit after tax stood at Rs. 517 million, a growth of 212%.

Those of you who have been following our calls for the last few quarters would know that our performance last year was severely impacted by challenges in Canada. Now, for two consecutive quarters, quarter four of last fiscal and quarter one of this fiscal, we have shown the turnaround that we have been able to achieve.

Now let us talk about the key profitability drivers in this strong quarter. We posted a triple digit growth of profit after tax for this quarter year-on-year. The significant growth in new business coming across geographies has helped improve profitability. We are also driving a change in the mix of onshore versus offshore or near-shore which gives better margin. As projected earlier, the Canadian operations built on the turnaround that we saw in quarter four of last fiscal and contributed positively in quarter one. The India CRM business that we acquired in September last year has also started to become profitable. We saw a handsome margin contribution from our Colibrium, a healthcare platform business that we acquired last year. These have offset the challenges posed by the increased ramp ups in India, Philippines, Jamaica and UK and the low capacity utilization in a couple of centers in North America.

In quarter one, HGS generated positive cash from operations after working capital changes of Rs. 886 million. Considering the need to conserve cash and to pay down debts, the Board has recommended an interim dividend of Rs. 2.50 per share in view of the encouraging performance of this quarter... This is two times the dividend that was proposed in quarter four of last fiscal.

Let me share some more business highlights of the quarter in the geographies that we operate:

Starting with North America region, which includes US, Canada and Jamaica operations, HGS continues to capitalize on the prevailing opportunities in the region. The US operations saw multiple engagements signed in the quarter across Healthcare, Consumer Products, Auto and Technology verticals. I am pleased to inform that many of them included a digital component, an area where HGS is

rapidly building expertise. Our Canadian operations further leveraged on the gains of last quarter and continued to expand business. We won additional lines of business from Telecom and Public Sector verticals. We posted strong growth in Jamaica and clients see it as a great near-shore option; we expanded programs for an existing US based healthcare client as well as won new business from a leading Jamaican bank for providing social media support. The outlook for the North America region, particularly for the US, continues to remain promising and we are experiencing increased traction from prospective clients across verticals, primarily Consumer Products, Healthcare and Financial Services.

As mentioned earlier, we have combined the US and Canada into one organization structure to drive revenue and cost synergies; these efforts are progressing well as well. The Canada business will need ongoing attention as it still has a very high client and sector constitution risk. We have some excess capacity in US and Canada, and are focusing on garnering additional volumes from new and existing clients for optimal use of this capacity. In Canada, we continue with our initiatives with consolidation of smaller centers and improve overall operational efficiencies.

Let us move to UK and Europe. Contract wins in telecom and public sector verticals are driving growth at our UK and Europe operation. We are seeing increase in seasonal volumes in the public sector. We added a temporary site at Preston to support these additional volumes. We have also started a multi-channel CRM program for a consumer packaged group clients with 40 full time equivalents. Going ahead, the prospects of the operation remains encouraging as we expect the seasonal demand to drive growth in the near-term. During the previous Investor Call, we had mentioned that one of the clients had decided not to renew its contract with HGS. This account will come to an end during Q2 and the estimated one-time cost of closure will be around €250,000. It will also result in the closure of our centers in Germany, Italy, France and the Netherlands; these are very small operations. Apart from the onetime cost that we will incur in quarter two, this is not expected to have any materially adverse financial impact on the Company.

The Brexit referendum was held in June. We are closely monitoring the impact on our business that might result due to the vote. While there may be some short-term impact due to the cross-currency fluctuation, we are optimistic about the opportunities that are set to emerge in this region. We believe that in the medium-term, the UK based clients and prospects are more likely to outsource and opt to use the flexibility and the cost effectiveness of outsourcers rather than continuing in-house operations. In this scenario, HGS' onshore proposition in the UK would be attractive to clients and prospects in this region.

Now coming to India. Our Indian operations experienced robust growth during the quarter. This performance was primarily led by the Healthcare vertical and the India domestic business. The performance of India domestic business was driven by volume growth coupled with new business wins across our existing and acquired India CRM businesses. We received a contract from a Fortune 100 e-tailer to provide customer care support to the client's B2C customers from Mysuru in Kannada and English languages. This program will operate with over 200 FTEs.

The healthcare vertical for HGS, overall, posted a growth of 30.4% in Q1, led by addition of new business in India and Philippines from existing clients. The vertical now contributes 43% of the HGS' total revenue. EBOS and Colibrium businesses recorded strong performance during the quarter. The growth of the EBOS business in India was led by significant demand from a home medical equipment services provider.

Coming to Philippines, HGS Philippines continued its growth phase led by Healthcare sector and has added over 600 employees during the quarter. We anticipate continued traction in business expansion driven by significant client demand for services from Philippines in the coming quarters.

As mentioned, HGS continues to make inroads into new logos across verticals. We signed five new logos with an annual contract value of approximately \$4.5 million in this quarter. This is a result of sustained focus in our sales and marketing efforts.

Led by the pace of the new business won from existing and new clients, we have set up three new centers in quarter one:

- A growing demand for Jamaica as a delivery destination saw us opening up a new center, our third one in Kingston. This has increased our capacity in the city by over 500 seats. We are oversold in Jamaica and may need to add one more center soon.
- We opened two centers in India, one each in Bangalore and Chennai to cater to new business by healthcare and domestic clients.
- Q1 also saw us shifting to a new state-of-the-art corporate office in Bangalore.

We continue to make ongoing investment in CAPEX as we ramp up in existing and new centers. In quarter one, the CAPEX stood at Rs. 527 million.

Let us talk about innovation. As a part of our strategy and in line with the changing industry trends, we have focused on delivering technology powered solutions. HGS remains committed to invest in technology to provide innovative and differentiated customer experience. During the quarter, we launched DigiCX, a suite of customer experience services focused on transforming traditional customer experiences. DigiCX offerings help companies measure how and where the customer wants to interact and employ the right mix of engagement solutions across voice, digital and mobile channels. The full service suite, namely DigiWEB, DigiCHAT, DigiTEXT, DigiSocial and DigiInsight offerings, has seen significant traction as evidenced by the signing of higher number of client contracts that include digital components. Q1 saw the signing of six digital related engagements; Going forward, we expect DigiCX to help us capture newer revenue streams in our client customer experience journey.

Robotic Process Automation (RPA) is a new area of focus for HGS that is unlocking demand from clients. An Everest Group research states that RPA adoption in BPM is growing at a CAGR of over 100%, and is likely to impact 30% to 40% of BPM spend in the long run. HGS hopes to gain big from our early mover advantage in this

space. We are already working with over five clients in RPA through gain-share commercial models and have shown them significant impact.

There is a lot of talk in the market about automation affecting jobs... while rule based activities will be automated, I believe people can be re-skilled to work on higher value services for the same client, and we are seeing that in HGS.

We are pleased that HGS continues to receive positive recognition from the sourcing advisor and industry analysts who remain key influencers for many clients for their outsourcing decisions, and industry bodies. During the quarter:

- HGS was recognized as a leader in the NelsonHall Customer Management Services NelsonHall Evaluation Assessment Tool for showcasing a focus on improving customer experience and taking out cost.
- HGS was recognized as a higher performer in the HfS Contact Center Operation Blueprint.
- HGS was included as a “Rising Star” in Gartner Competitive landscape: Building Differentiated Customer Management BPO Services.
- At the Contact Center World Best Practices Americas 2016 competition in Miami, Florida, HGS won two Gold awards for the second year in a row:
 - Gold in the category of Best Outsourcing Partnership based on our partnership with a major electronics company
 - Gold for the Best Use of Self-Service Technology.

NASSCOM recently released its top 20 IT/ BPO employers list for FY 2016. HGS was ranked 11th for the last fiscal, led by an addition of over 11,000 employees across geographies. HGS advanced from the 18th rank in the previous year.

To summarize, our relentless focus on driving profitability is yielding results, and it is evident from the robust growth coupled with improved profitability numbers in Q1. We have been able to sustain the turnaround that we demonstrated in quarter four last fiscal. Further, our investment across geographies have led to driving more business offshore and near-shore. We anticipate the trend to continue and further

contribute to our growth going forward. Our outlook for the rest of the year remains positive, while quarter two is expected to be flat in comparison to quarter one with a possibility of a marginal decline in margins. On full year basis, we expect FY 2017 EBITDA margins to expand over FY2016.

I would now hand over the call to Pala, to walk us through the financials in greater detail. Thank you, all, once again for being with us in the call today.

Srinivas Palakodeti: Thank you, Partha. Good afternoon everyone and thank you for joining our Q1 FY 2017 earnings call. Our revenue for the quarter increased by 23.1% year-on-year to reach a level of Rs. 9,095 million. This growth was driven by strong performance of the healthcare, consumer and BFS verticals. In constant currency terms, the growth for the period was 20%, of which 14% was organic growth and the remaining 6% came from the acquisition of the India's CRM business. Foreign exchange fluctuations accounted for about 3.1% of the total growth during the period. Offshore/ near-shore revenues as a percentage of total revenues for the quarter was at 44.5%.

The average rate of the USD-INR for the quarter was Rs. 67.04 as compared to Rs. 63.65 in Q1 FY 2016, a change of 5.3%. The average exchange rate for the Philippine Peso to the US dollar changed to PHP 46.96 in the quarter as compared to PHP 44.73 for the same period last year, resulting in a change of 5%. Compared to Q1 of last year, the Indian rupee depreciated by around 1% against the Canadian dollar, while it appreciated 3.7% against the British Pound. For our mix of this business, this lead to overall net depreciation of 3.1% of the Indian rupee.

Moving to revenue origination from various geographies, US accounted for 65% of total revenues as compared to 66% in the same period last year. The share of Canada originated business dropped from 18% in Q1 FY 2016 to 12% in the current quarter, partly due to drop in the value of the Canadian dollar compared to the rupee. Business originating from UK and Europe remained flat at 10% compared to the same period last year. Contribution of India originated business increased from 8% in Q1 FY2016 to 13% during the last quarter ended June 2016. This growth was

primarily due to the acquired India CRM business, growth in volumes from existing clients of the legacy India CRM business along with growth in the HRO and payroll business. Of the total India originated business, around 11% came from the CRM business and the balance 2% came from our HRO and payroll processing business.

In terms of revenue contribution by vertical, healthcare continued to be the major contributor and accounted for 43.4% of total revenues during the quarter, compared to 41% in Q1 of FY 2016. The contribution of telecom and technology verticals remained flat compared to the same period last year and accounted for 25% of the revenues. Share of consumer vertical increased from 13% to 14%, while BFS accounted for 7% of this quarter's revenues and the balance 11% came from other verticals. In absolute rupee terms, contribution from the healthcare increased 30%, share of revenues of telecom and technology increased 22%, consumer increased 32% and BFS also increased around 33%.

We have crossed the Rs. 100 crores EBITDA margin this quarter and our consolidated EBITDA for the quarter was Rs. 1,066 million, a growth of 95.8% compared to the same period last year. EBITDA margin for the quarter was 11.7% as compared to 7.4% reported margin of quarter ended June 2015. This improvement has been driven by multiple factors such as increased offshore mix, recovery of the Canadian operations and improved performance of the India domestic business.

The employee related expenses for the quarter increased 17% to Rs. 6,038 million. As a percentage of sales, it declined from 70% in the quarter ended June 2015 to 66% for the quarter for the quarter ended June 2016. Other expenses as percentage of revenues declined from 22.7% of revenues to 21.9% of the revenues. Our interest expense during the quarter was Rs. 118 million as compared to Rs. 96 million in the last year.

Other income for the quarter was Rs. 139 million as compared to Rs. 115 million in the same period last year. The component of other income for quarter ended June 2016 includes Rs. 44 million of interest income received on account of income tax refunds of around Rs. 280 million received during the quarter. Profit before tax for

the quarter was Rs. 753 million, an increase of 181% with a margin of 8.3%. Tax provision for the quarter was Rs. 292 million which included recognition of deferred tax asset of Rs. 65 million. Our PAT for the quarter increased by 212% to Rs. 517 million, leading to a PAT margin of 5.7%.

Along with the improvement in profitability, there has been better working capital management. As a result, cash flows from operations after factoring working capital changes came in at Rs. 886 million for the quarter and cash outgo for the CAPEX was Rs. 527 million.

In terms of capital structure, our total debt as on 30th June, 2016, was Rs. 7,993 million which shows a reduction of around Rs. 500 million over 31st March, 2016. Our cash and treasury surplus at the end of the quarter was Rs. 4,572 million. The cash and treasury surplus includes Rs. 36 million of funds of a subsidiary HGS International Mauritius, which is placed in the form of bank deposits with Bank of Baroda, London Branch. Taking into account the cash and treasury surplus, net debt as on 30th June, 2016, stood at Rs. 3,421 million. Our net worth at the end of the quarter was Rs. 12,650 million. Based on the current debt levels, we have a debt to equity of 0.63x and net debt to trailing 12 months EBITDA of 0.94x. The business return on capital employed, i.e. return on capital employed excluding the treasury and cash surplus came to 19.1% for the quarter ended June 2016.

At the end of the quarter, we had total headcount of 40,938; of this 68% are based in India, 17% in Philippines, 5% in US, 6% in Canada and 4% in UK. Of the total 27,842 employees based in India, around 16,000 are in the India CRM business, around 1,900 are in the HRO business and the balance are for the India offshore business and shared services and corporate functions. The increase in headcount over the period March 2016 is around 1,100, with the increase happening primarily in India and Philippines. The total number of seats as on 30th June, 2016, was 38,315, an increase of 1,043 seats compared to March 2016.

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. We will take the first question from the line of Ravi Menon from Elara Securities. Please go ahead.
- Ravi Menon:** Wanted some clarity on the employee trend in the United States, there seems to be a sharp decline in headcount, so is this something that we should put down to mostly seasonal factors or has some of it moved offshore? It would be great if you could give some color on this.
- Partha DeSarkar:** Yes, there is seasonality in our business in North America. So you have seen that coming off because of that seasonality. And there is a small portion of the work that we were doing in Canada that has moved to Philippines, so that has also impacted business.
- Ravi Menon:** Sir, Canada numbers, if I am not mistaken, that is shown separately and Canada has actually seen an increase QoQ in headcount. I was talking on the...
- Partha DeSarkar:** No, I am just talking about one particular client who has moved some business offshore.
- Moderator:** Thank you. We have the next question from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** Sir, we have added new clients in the US in this particular quarter, so could you please give us info on what would be the potential size of those clients?
- Partha DeSarkar:** I mentioned that we have added five clients and the annual contract value that we estimate today of the five clients that we have added is about \$4.54 million.
- Jagdish Bhanushali:** And potential would be much larger than this or it is...?
- Partha DeSarkar:** Yes, generally these BPM clients start small and then we make inroads into the relationship.

Jagdish Bhanushali: And how big was the Canada client impact which you are looking at the moment, which you are looking to ramp down?

Partha DeSarkar: It is marginal, it is not very big.

Jagdish Bhanushali: Could I get the number of days' sales outstanding for us at the moment, receivables?

Srinivas Palakodeti: They are typically in the range of about 60 to 65 days. I mean, there may be some odd ones which go a little more, up to 90 by contract, but most of them are in that 60 to 65 days.

Jagdish Bhanushali: Because we had some working capital tied up due to Canadian operations, so wanted to understand how much of the funds was released in this particular quarter from that operation.

Srinivas Palakodeti: No, so last quarter the business was running a negative EBITDA, so we had to fund the cash loss. Obviously with the EBITDA turning positive, we did not have the need to fund the business.

Jagdish Bhanushali: And other thing was that you mentioned that we have got Rs. 28 crores from the litigation part that we had of tax, so have we got in this particular quarter itself?

Srinivas Palakodeti: Yes, we got this money back during the quarter and hence we had the ability to, you have to bifurcate the split against principle and the interest. So, hence we were able to recognize about Rs. 4.4 crores of interest income.

Jagdish Bhanushali: And other thing was, the impact of IndAS is what I wanted to understand. Last year i.e. in Q1 FY 2016, we had an impact of Rs. 28 crores that was part of comprehensive income, so could you quantify in which heads it is in this particular current quarter or what will be the impact of IndAS in this particular quarter that we have got?

Srinivas Palakodeti: So there are some items which were anyway happening. For instance, whatever are the investments which have been made for our overseas subsidiaries, those get translated into the prevailing exchange rates and the difference between the earlier quarter and the current quarter shows up as a Foreign Currency Translation Reserve.

So that was happening any way. But since now we are in IndAS and there is a SEBI requirement that you show this amount of Rs. 28 crores, it does not impact the P&L but was going straight to the balance sheet. Only thing is that now it becomes apparent what are the items which have gone in terms of adding or subtracting from the reserves and surplus.

Jagdish Bhanushali: So there is no impact to sales per say, because of the IndAS?

Srinivas Palakodeti: No, there is no impact on the revenues for that, a Rs. 28 crores figure is the change which happened in the balance sheet but under the old GAAP, there was no requirement to show this; under the new requirement, you have to show what is the change which has happened on the balance sheet without affecting your P&L.

Jagdish Bhanushali: And your comments on the impact of Brexit, when we talk to our clients what would be the impact, because we are also involved in government business as well in UK.

Srinivas Palakodeti: In the short-term, the Pound has lost against almost all the currencies in the world. So our translation into rupees has been impacted and our UK revenues translate into lower number of rupees. I mean, the outcome of that has been that companies, which would have a trade-off between off-shoring and giving to local businesses, they would see in a normal course a differential on the pricing between an offshore business and onshore business. Now with the Pound weakening against a number of currencies, the differential in pricing is not as large as we used to look at it; we believe it will help us drive more business towards the UK generated business... our UK business is 100% on-shore, there is no off-shore component. So we are not impacted by, in that sense, from the devaluation of the GBP against all the currencies. Rest of it, we have to see how it pans out, because the UK government about a week back announced their version of Quantitative Easing, corporate rates are expected to drop, interest rates have been cut. So a number of things are happening but I think it is right now a little early to take a view. But to the extent, we have UK business, government business that has not really impacted by whatever are the consequences. So the final UK exiting EU - is it only England or do other

people want to stay in EU, those remain to be seen. Right now, it seems a little early to talk about it.

Jagdish Bhanushali: Other thing was, you have done a CAPEX of Rs. 52 crores, so where is this largely attributed to?

Srinivas Palakodeti: So, as we said, there is some which has gone to a corporate office which we moved into, we opened a new SEZ in Bangalore, we have added a center in Jamaica, so growth CAPEX would really be in these areas, there would be a little bit of replacement CAPEX in other locations but primarily this is in India and Jamaica, maybe a little bit in Philippines.

Jagdish Bhanushali: And could you please comment on CAPEX plan for the whole year in terms of budget?

Srinivas Palakodeti: Yes, I think we have spoken about it. So we are watching it, but as I said, it will be substantially lower than the number we had last year and will probably be in that Rs. 160 crores to Rs. 180 crores range. That is what is our estimation, this is what we have visibility today.

Jagdish Bhanushali: And could we see the cash flows coming from our businesses improve from Q1 as well?

Srinivas Palakodeti: So there has been an improvement, I mean, since we have gone about Rs. 88 crores of net cash flow from operations after working capital change. So that is already there.

Jagdish Bhanushali: No, in terms of the CAPEX as well, like if I deduct Rs. 52 crores of CAPEX we are left with Rs. 33 crores and then we have received a one time from the escrow account of Rs. 28 crores, so technically we stand at about Rs. 5 crores of cash flow that has generated from the business. So that is what I want to know, will that move up from here on or no?

Srinivas Palakodeti: I definitely see CAPEX dropping after that and I think because the cash flow received from the tax refund would not be in cash flow from operations, I can recheck but it should come there.

Moderator: Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, just one question on your Canadian operation, you spoke about pricing being renegotiated and profits coming down in this quarter. If I look at your P&L, frankly, it seems to be a little lower and gross margin is also a little lower on a QoQ basis whereas the benefit has come from SG&A decline. So, how should we read the numbers from that perspective?

Srinivas Palakodeti: Sorry, I did not get the first part of your question.

Mohit Jain: Canadian pricing would have been, I am assuming it is renegotiated completely, so the impact has come in P&L already. But if you look at your pricing on a revenue per employee sort of basis, it is little down on a QoQ basis and gross margin is also a little lower. So the only expansion in the EBITDA margin has come from SG&A cut. So what I am trying to understand is, how does the Canadian improvement impacted your P&L in this quarter?

Srinivas Palakodeti: So Canadian business, as you know, continues to be EBITDA positive. If you are comparing the number on the other expenses compared to the fourth quarter, I think that is what you are referring to. In our fourth quarter, there was a CSR spend which had gone all in Q4 of the order of about Rs. 3 crores, which we do not have in this current quarter because that was one spend for the whole year, so there is impact of that. Also, there is a variation because of the exchange rate and the fact that GBP has lost value against the Rupee in relative terms that is showing up as lower cost. In addition to that, we have been putting emphasis on bringing in operational efficiencies and cutting cost wherever possible, so that explains for the balance.

Mohit Jain: So, going forward, we should assume gross margin to be stable and SG&A benefit to continue for the next three quarters?

Srinivas Palakodeti: So you are defining gross margin as employee cost to revenue?

Mohit Jain: Yes, employee cost to revenue.

Srinivas Palakodeti: Yes, that is right, we expect it should be in that range.

Moderator: Thank you. We have the next question from the line of Amitabh Sonthalia from SKS Capital. Please go ahead.

Amitabh Sonthalia: Just a few observations, one general question was, just missed the opening remarks on the call, but what is the general outlook for this year, are we expecting the recent trends to continue in terms of margins, profitability, etc. and are other client specific issues in specific geographies completely behind us?

Partha DeSarkar: So, quick answer to your question, we expect this year to be much better than last year. In very general terms, you know that we do not give any forward guidance. Quarter one and quarter two will remain flattish, that means, we expect quarter two to be similar to quarter one because of the seasonality that we have on our business. Quarter three and quarter four would see the real pickup happening, as a result of which if quarter one fits the norm for the rest of the year then we can clearly see good margins improvement this year. So that is the answer to your first question.

I made a comment on Canada, which was that in Canada, though we have started to make money, our client concentration with industry concentration risks remain, so we are not completely out of the woods, we have to fix it for me to be able to say that we are completely out of the woods. But that is a longer term item, a client concentration risk cannot go away very quickly, it will take us time to fix that issue. I think, highlighting that as a possible risk item and nothing beyond.

Amitabh Sonthalia: And how are the recent acquisitions panning out, smaller acquisitions that we made in India and overseas?

Partha DeSarkar: So, both have been very interesting acquisitions, the Colibrium acquisition was a first platform play, the first time that we acquired a healthcare platform. And last

year went into actually building the platform beyond what it was, so we got new functionality, new features, we made the product more robust, that means there is less customization required while we implement. And we have also moved away from one time revenues to license fee pay-as-you-go revenues. So those changes are actually what impacted last year's performance of that particular acquisition and we knew that in a platform business, you have to invest in the platform to make it robust for it to actually sell well. We are seeing that happening in quarter one, very encouraging signs there. And as you know, a platform business is a non-linear business and from where we stand with the investment in the platform being over, I think we are going to reap non-linear benefits from that platform fee so far as that acquisition of Colibrium is concerned. So that is the answer to question two.

I will also cover briefly how our India BPM business that we acquired last year is doing. We did say that it will take time till quarter four to breakeven and it did achieve breakeven in quarter four because we were able to reprice most of those contracts. Happy to say, in quarter one, the entire India domestic business has done reasonably well. So that is the complete answer to your second question.

Amitabh Sonthalia: Just quickly a few general comments I am going to make, see if you have any response to that. One is that the dividend has been cut regularly, we cut it from Rs. 5.00 to Rs. 3.50 the previous quarter and now to Rs. 2.50, and that too despite having such a strong quarter year-on-year, etc. So last year, for example, first quarter I think we gave Rs. 5.00 and this year we have cut it by 50%. So, I know you mentioned that's just to conserve cash but it seems like the Company is moving away from, has changed the dividend policy internally and despite achieving higher growth over the years you seem to be cutting dividends. So going forward, any reason for this change in dividend policy of the Company and what should one read into this going forward?

Partha DeSarkar: So, I think we have explained the rationale behind the changed thinking, we have actually concentrated on paying down debt and conserving cash for the Company, just to handle the kind of furious growth that we are in the middle of, right. So, we did double dividend, so I think the data point that you have, the data point of Rs.

3.75 pertains to quarter three, actually in quarter four we cut it even further, we cut it to Rs. 1.25. So we have actually doubled it from that point to a 2.5 number and that is a number that we are comfortable with as of this point of time, given the growth needs, the cash for the growth needs of the Company and the fact that we also are now looking at paying down our debt by utilizing that cash.

Amitabh Sonthalia: No, it is just that for several years in the middle, regardless of your earnings always been variable and stable, you have maintained a certain absolute quantum of dividend for three years in between and now suddenly the dividend has started varying a lot on quarterly basis. So, I was just trying to read into that that why not have a payout percentage policy or something like that, because earlier even in bad profitable years, you still paid out a very high absolute dividend, so your dividend payouts range from 25% to sometimes even 70% - 80%. So, a lot of companies come out with a clear dividend policy, it could be absolute amount or, it seemed like your previous dividend policy was a fixed absolute amount of, let's say, Rs. 20 annually for two, three years.

Partha DeSarkar: No, it is actually not two, three years, it is longer than that.

Amitabh Sonthalia: No, I mean, in the sense that you have been an independent listed company for almost 10 years now, so it grew from Rs. 5 to Rs. 20 and then it remained constant at Rs. 20 for several years and then now it has been cut last one year or so.

Partha DeSarkar: See, last year we had a bad year so we did not see the need to pay out so much, it would have been an absurd payout ratio if you had retained Rs. 20 last year, given the fact that our profitability had changed. And now the thinking currently is that should we go back to those high dividends or should we look at conserving cash and paying back debt, that is the thought behind the interim dividend that has been declared this quarter. We have doubled from the last quarter just because the profitability has been sustained at a high level, that is the recognition of the fact that the profitability is back. We are trying to cut the dividend payment from the dividend signaling that people look for, that is what we are trying to do.

Amitabh Sonthalia: But you do not intend to come out with any articulated dividend policy which lot of companies in your sector and otherwise follow, which is a payout percentage of profits or something along that lines?

Partha DeSarkar: Yes, our Board is not keen on that yet... we have discussed that, we have not really come to that conclusion yet.

Amitabh Sonthalia: I would just suggest that perhaps you should strongly pitch to the Board so that there is a little more clarity on your dividend policy.

Partha DeSarkar: I will take your recommendation to the Board.

Amitabh Sonthalia: And just quickly, you seem like, again, I have been tracking your company for the last eight, 10 years and we have been independent listed company for almost 10 years now. There has been a fair bit of variability and instability in our annual and quarterly earnings and every two years we seem to go on a turnaround mode. So, I am just wondering when can we actually, investors can expect sustainability in earnings or some stability or perhaps, and of course, over this period, we have also gone from a negative net debt company to a net cash positive company to now be a reasonably leveraged net debt company, even though it is encouraging to cut some debt last quarter. And company continues to hold high gross cash for last 10 years despite taking on debt. So I am just saying that eight, 10 years is a fairly long period in the lifecycle of any company or industry for something to change and the policies to be revaluated. It just seems like I will harp on the same issue that on this 9, 10 year period list company where we have grown our turnover perhaps 5x, we have created zero shareholder value whereas similar size Indian companies from your sector and your promoter group have created more than 10x value in the last 7, 8, 10 years. So, I am just wondering if there is any introspection on part of the Company to sort of also, the purpose of this call is to interact with investors and which is why, investors are just one of the various stakeholders in the company. But what would be your message to shareholders and investors because this is primarily for them, as to what could change in the next few years where perhaps there could be some sustainability or predictability in earnings and therefore better value creation for

shareholders, because even in a raging bull market like we are at currently where I do not know of any other company which trades at the multiple you are trading at with genuine earnings or genuine promoters.

Partha DeSarkar: Yes, I think it is a good feedback, Amitabh. And all I can say in defense is the fact that this is unfortunately international business and the things that impact our businesses from the macroeconomic factors in the world are those we cannot necessarily foresee and control. So you know for a fact that, and we proved it, we know for a fact that all our challenges last year was caused by Canadian business. Nobody predicted oil glut, nobody predicted oil prices being where it is, nobody predicted a recession in Canada, nobody predicted about a 40% drop in the Canadian dollar. So we went through that hell for three quarters and we had told our analysts that this is a problem isolated to one particular client contract, if that is sorted out we will be back to a normative profitability. And in the last two quarters, we have proven just that... that it is an extraordinary circumstance that we did not see coming and the client contract has been revised to enable us back to our normative profitability. So that is where we are, let us see where this takes us. And so the larger question that you asked, I do not think I can answer such a long question in this call, we are planning to hold our Analyst Day sometime in October and you will get the firm date once we have firmed it up. The kind of question that you have asked me Amitabh, I will have a hard time trying to answer such a long question in this call, that is about vision strategy, risk and all of that. We can have a longer discussion around that once we meet in October, if you plan to attend.

Moderator: Thank you. Our next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: My first question relates to the healthcare piece of the business and this is one part that has done extremely well for us over the last three, four years. Over the past few months, we have heard some of the larger US companies talk about withdrawing from the enrollment on the seat exchanges, so do you think that can essentially create some temporary headwinds to the healthcare business in FY 2017? That is question number one.

The second question, essentially, is on margins. So, after you declared your FY 2016 numbers you said that our goal, essentially, for FY 2017 would be to extend margins to about 100 bps to 150-odd bps, you have done phenomenally well in Q1. So should we look at the margins coming out better than your initial indication?

Partha DeSarkar:

So, I cannot give you specific guidance, Manik, we do not have a guidance policy. So let me answer your first question, where do we see healthcare reforms going? See, whether or not healthcare reforms stay or go, all indications are it is going to continue. But I cannot today take a call on US elections and its impact on US policy. We have continued to invest in the healthcare business, the healthcare business has grown from \$100 million three years back to \$217 million today and we expect to grow that even better this year. Our M&A today is targeted towards healthcare platforms, so these are to things that we are trying to do to consolidate our leadership position in healthcare. And we believe that these are small bets, these are less risky bets but these have multiplier effects if you are able to do the right things at the right time, and we believe that we are doing so. The Colibrium acquisition, in fact, even though we are not an IT company, is a platform play and we have actually managed to do very well. I think Colibrium will be a game changer for us and we are looking at more of this platform type thing as we look at M&A today. So that is our outlook towards healthcare.

Now on your question on margins, I think I have answered the question before. Our outlook for this year is positive, it is going to be better than last year. I think quarter two is going to be flat in terms of revenue and may be a marginal decline because of the seasonality. But quarter three and quarter four, which is essentially the second half of the year when seasonality kicks in, when holiday season buying starts, when insurance renewal starts, that is when there is a sharp uplift in our volume and those volume uplift actually translates into margin. So that is our outlook for the full year.

Moderator:

Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Partha DeSarkar for closing comments.

Partha DeSarkar: Thanks to all of you for joining us in the call today. We look forward to again having a discussion around the quarter two numbers sometime in the middle of November. Thank you very much.

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

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Note: This transcript has been edited to improve readability

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