



“Hinduja Global Solutions Limited Q1 FY2019 Earnings Conference Call”

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**MANAGEMENT: MR. PARTHA DESARKAR – CHIEF EXECUTIVE
OFFICER, HINDUJA GLOBAL SOLUTIONS
MR. SRINIVAS PALAKODETI – CHIEF FINANCIAL
OFFICER, HINDUJA GLOBAL SOLUTIONS
MR. RAMALINGAM RAVI – HEAD (INVESTOR
RELATIONS), HINDUJA GLOBAL SOLUTIONS**

Moderator: Good day ladies and gentlemen and welcome to the Q1 FY2019 Earnings Conference Call of Hinduja Global Solutions Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Ramalingam Ravi – Head of Investor Relations. Thank you and over to you sir.

Ramalingam Ravi: Thank you Margaret. Thank you ladies and gentlemen. I, R. Ravi – Head of Investor Relations at HGS, wish you all a very good evening and a warm welcome to the first quarter of FY2019 post results conference call. To discuss the quarterly results, I am joined by Mr. Partha DeSarkar – CEO and Srinivas Palakodeti – the CFO.

Before we begin the conference call, I would like to mention that some of the statements made in today’s conference call may be forward-looking in nature, including those related to the future financial and operating results, benefits in synergies of the company’s strategy, future opportunities and the growth of market of the company’s services and solutions. Further, I would like to mention that some of the statements made in today’s conference call may be forward-looking in nature and may involve risks and uncertainties.

Now, I would like to invite Mr. Partha DeSarkar to provide his perspective on the performance for the quarter under review. Thank you and over to you, Mr. Partha.

Partha DeSarkar: Thank you, Ravi. A very good afternoon to everyone and thank you all for joining us on the call today to discuss our first quarter FY2019 financials and business performance. We hope that you had an opportunity to review our earnings press release and the attendant fact sheets for the reported financials, which are available under the investor section on our website as well in both the stock exchanges. I would like to start the conference call with a broad overview of the financials for the quarter followed by operational highlight and strategic initiatives. After that, I will hand over the call to our CFO – Mr. Srinivas Palakodeti to discuss the financial performance of the quarter under review in detail. We will then open up the call for the Q&A session.

To start with, we continued our business momentum for the first quarter of FY2019. We posted a very strong growth in top line, led by healthcare and our recent acquisitions. For the second quarter in a row, the overall revenues have crossed the 10,000 million mark in rupees to register a top line of Rs.11,088 million. An increase, which is an impressive 18.7%, on a year-on-year basis. To give a breakdown of this 18.7% year-on-year growth - 5% was organic, 4.7% was from forex gains and rest 9% came from the acquisitions of AxisPoint Health and Element Solutions.

Our legacy business has done very well; both the Healthcare and the CET verticals have seen good traction across most of our geographies.

Led by volume growth and onshore ramp ups, the healthcare revenues contributed 51% to our overall revenues for the third quarter in a row and we continue to see demand for voice and non-voice services to be delivered from all four delivery geographies – India, Philippines, Jamaica and the US. The financial performance of Colibrium has improved significantly and the business is expected to close the year in a better position compared to FY2018. Incidentally, the two recent acquisitions, which have multiple healthcare clients increased the vertical's contribution to overall revenues to 54%. Including the acquisitions, the vertical saw a year-on-year growth of 37%.

The CET vertical is also in a good position except for a couple of telecom clients in India. We have told you in our earlier calls that the telecom industry consolidation and the pricing war has put pressure on our India CRM business, leading to a drop in volumes. HGS is looking to diversify and lower dependence on the telecom vertical in India, but that takes time.

The focus is getting traction with some good wins in logos recently. However, it will take a couple of quarters for these accounts to ramp up to a significant size to counter the headwinds that we face in the telecom industry. But the good news on the CET front is that it is growing in other geographies in US, UK, and Canada. The recent wins in the second half of FY2018 and quarter one FY2019 are ramping up currently and will continue to drive growth in the next few quarters. Due to increasing demand, we expect to set up a new center in Jacksonville, Florida, in the second half of FY2019. Specific to Canada, we have renegotiated commercials with some key clients and increased our Work@Home agent base to 475.

The India domestic payroll business however continues to do very well and has won three new clients in the financial services sector.

We have some really good wins in quarter one, especially for digital services. HGS has won nine new logos in this year across BFSI, retail and consumer verticals. These include a UK-based public sector client, which is into financial services advisory and a financial services client from India. We are also expanding our relationship with eight of our existing clients. There is a lot of interest in our DigiCX services and this quarter, we won five deals in this category. One is a significant contract to provide social media related services for the largest retailer in the world based in the US. Another engagement is with a high-end retailer in India to provide a range of services including customer care and retention, customer experience management, digi-chat, etc.

On the new services, over the last four years, we have invested a significant amount in developing new capabilities like robotic process automation, digital services like social care, analytics, Work@Home and platform based services. We are working on multiple engagements related to these services. The feedback from clients has been positive and our focus is to continue to provide them with differentiated experience, led by technology based solutions. The recent acquisition of Element is a part of that digital strategy. We will continue to look for strategic

partnerships and segments like digital analytics, robotics and machine learning, which can add value to our business.

During our quarter four FY2018 earnings call, we had shared with you concerns about India CRM business. Apart from the continuing drop in volumes from telecom clients, we had mentioned the rising wage costs as well, primarily on account of the increase in minimum wages in Karnataka. In quarter one FY2019, the wage bill of India operations has increased by about Rs.210 million. This was the primary reason for the drop in our EBITDA margin for our legacy business, which stood at about 9.55%. We have initiated measures to control costs, consolidating centers and exiting low margin accounts where the rate increases are not possible, even as we focus on premium lines of businesses where price points allow us to offer hire them minimum wages. But it is obviously a pretty long journey ahead of us for the India domestic space.

To sum it up, I have to say that the overall state of our legacy business continues to be strong. Apart from that one small area of India domestic, all other businesses are doing much-much better than they were doing last year.

Now let me come to you on the update on the acquisitions made in early April 2018. We did two of them, the first one Element Solutions: the objective of this acquisition was to strengthen our digital marketing and cloud capabilities, add to HGS interactive's service offerings and gain an onshore team of digital experts. In the first quarter since acquisition, Element has performed better than expectations, delivering revenues of over USD 3 million and EBITDA margins of nearly 13%. Looking ahead, we see a big opportunity for Element to cross sell with HGS business as well as win new clients.

The second one is AxisPoint: we acquired AxisPoint to enhance HGS capabilities in the clinical services area. Significantly, that segment is about 6 to 7 times larger in market price and the administrative cost management area where HGS currently generates most of its revenues. We gained onshore clinical delivery capability through US registered nurses working from home and high-end clinical analytics.

In the first quarter of its operations, AxisPoint's performance was well below our expectations, mainly due to the exit of a key client much earlier than scheduled. In our previous calls, we had mentioned that this business would take a hit on profitability in FY2019. To elaborate on this, AxisPoint has two broad businesses – CarePoint and GuidePoint along with analytics support. While CarePoint, which is into care management and analytics, posted growth, the GuidePoint business has continued to see significant challenges. We are taking corrective steps including cost management and off shoring and expect to see a turnaround towards the end of the fiscal. Our outlook continues to be positive and the strategic rationale for us to grow our healthcare practice remains unchanged. What we need to execute is to cut some of the losses that is happening on the AxisPoint business sooner than we were earlier envisaging.

Those of you follow us closely would have noticed that HGS' approach has been to make small and medium size acquisitions mainly to acquire new capabilities, strengthen the portfolio of offerings and enter new markets. The acquired company is turned around over a period of time. We would like to highlight that our endeavor is to build a sustainable and scalable business model. But the process of turning around acquisitions can hurt profitability in the short term but in medium term, it brings value to all the stakeholders.

To summarize, while the core business is doing very well, in fact much better than last year, we recognize that there are some pockets under pressure which could do much better, thus, creating some volatility in profit after tax and EBITDA in the last few quarters.

Our strategy is to be aligned with our client requirements and technology shifts and at the same time grow sustainable and profitable revenues. Recent client wins in the second half of FY2018 and quarter one 2019 give us confidence that the revenue growth would continue to be strong in the next three quarters of the current financial year. We will continue to take steps to drive profitability by leveraging various options including divesting some businesses if required. Like in quarter one FY 2019, we are likely to experience margin pressures on account of Karnataka minimum wages and the AxisPoint business performing at sub optimum level but probably a weak rupee is likely to offset though it is difficult to predict with any certainty.

I will now hand over the call to Pala to walk us through quarter one FY2019 financials in greater detail. Thank you all once again for being with us on the call today.

Srinivas Palakodeti:

Thank you Partha. A very good afternoon to everyone on the call and thank you all for joining us on our Q1 FY2019 earnings discussion. As we have said in the past, we would like to repeat saying that the Q1 FY2019 results have been published as per SEBI guidelines and as per schedule 3 of the Companies Act. If the company has forex gains, those are to be added to the other income as in the case of Q1 of FY2019 and if there are forex losses, the same are to be added to the other expenses. The EBITDA margin expansion or contraction on sequential basis or on a year on basis should be seen keeping in line with this regulation. For the purpose of this discussion however, EBITDA and EBITDA margins have been computed excluding forex losses and gains, which have been taken as part of the other income. This is being done so that we have a better comparison of financials on a like to like basis.

Now we turn to the financials for the quarter, revenue growth on a year-on-year basis was 18.7%. If we break up the growth of 18.7%, 5% was organic growth 4.7% on account of forex gains and the balance main 9% came from the acquisitions of AxisPoint and Element Solutions. Like always, revenues from the healthcare insurance vertical continue to show strong momentum, growing by 37% over last year's first quarter and 16% on a sequential basis. The strong Q1 growth numbers include acquisition of AxisPoint contributing about USD8.8 million, which is all from Healthcare and Element, which had around USD3 million of revenues. There is a significant portion of Healthcare revenues from Element acquisition as well.

So excluding the acquisitions, the share of Healthcare would remain as in the previous quarters at around 51% but substantially higher than 47% in Q1 of 2018. If we include the Healthcare revenues from the acquisition, the share of the vertical stands at 54%. The telecom revenues overall have shown a drop of about 11%, this is primarily on account of the drop on the India telecom revenues in the India domestic business. As Partha mentioned, we are seeing growth in other area in other geographies but at an overall level, there has been a drop in the revenues from the telecom and technology vertical.

Revenues originating in USD currency continue to perform well and grew by 27.5% year-on-year for Q1 FY2019 and over the previous quarter by about 12.2%. Revenues originating in CAD and GBP improved modestly and there was a negative impact of the domestic telecom revenues, which resulted in revenues originating in INR declining in absolute terms over Q1 of FY2018 as well as Q4 of FY2018.

If we look at revenue by delivery centers, USA and Jamaica grew by about 28% sequentially and over last year's first quarter the growth was around 50%. The onshore revenue, which includes India domestic revenues, stood at 54.3% of the total revenues, which is about 100 basis points higher than what it was in Q1 of FY18. This increase is primarily coming out of the acquisitions, which are primarily onshore delivery.

As Partha mentioned, our EBITDA margins of the legacy business excluding the acquisition stood at 9.55%. The drop in the EBITDA margins compared to the earlier period is primarily on account of the decline in the of revenues and profitability of the India domestic business, coupled with increase in provision for minimum wages, which have increased significantly especially in the state of Karnataka. The impact of minimum wage increase in Karnataka alone is about Rs.129 million for quarter ending June of this year. The drop in profitability beyond from the legacy business to the reported 6.64% is on account of AxisPoint, where we have seen expenses far in excess of the revenues. Other income is primarily on account of foreign exchange gains due to reinstatement of the receivables.

During the 12-month period ending 30th June, our gross debt reduced by Rs113 million. Over 75% of the debt is foreign currency denominated. In constant currency terms in the quarter ended 30th June 2018, we repaid debt of Rs.211 million. However due to the depreciation of the rupee against the dollar, in rupee terms the debt reduction shows up at a modest Rs.61 million. Depreciation for the quarter included around Rs18million of expense on account of amortization of intangibles arising out of the acquisition.

HGS had acquired 57% of Element Solutions in April and we have an agreed plan to buy out the balance out 43% from the original shareholders. The estimated amount payable which is shown as part of the deferred liability is around Rs350 million.

As per IndAS, these are fair value and accordingly interest cost must be accrued for the deferred consideration. Due to this, an additional amount of Rs4.11 million has been accrued as interest

cost so while our debt levels have reduced, from interest cost perspective, this amount which is not a cash flow at this stage - it is more notional - has increased our interest cost. From a business ROCE perspective, our legacy business has generated a return on capital employed of 20.8%, whereas after factoring the acquired businesses, that is roughly in the range of 14.4%. In the published summary balance sheet, you would have seen increase in current and non-current liabilities as of June. This is primarily on account of the consideration payable for the balance 43% of Element as well as the increase of provisions for minimum wages as well as some of the impacts of the acquisitions.

Our endeavor to take more seats on OPEX basis continue. As of 30th June 2018, OPEX seats account for about 19.8%, compared to about 15% a year ago. Our endeavor to increase revenue productivity continues and we have managed to achieve our revenue per employee from about 73,881 per month per employee in Q4 of FY2018 to 82,349 in Q1 of FY2019.

As we discussed earlier, we are seeing some drop in volumes in the India telecom business so our India headcount for the supporting India domestic business has reduced by about 750 between March and June, offset by an increase of about 230 for the India offshore business. As a result, you would still see there is a slight reduction in the headcount in India overall as compared to the previous periods.

We have mentioned in the earlier calls that the boards of our wholly owned subsidiary in India i.e. HGS International Services Private Limited (HGSISPL) and HGSL, had agreed to merge HGSISPL into HGSL. We have now completed the process and as of 1st of August, 2018, HGSISPL has ceased to exist. All the formalities with ROC, etc have been completed. As the appointed date was 1st of April 2017; the published financials have been recast to give effect to the merger and necessary disclosures have been made in the publishing page. With this, I conclude my portion and now throw the floor open for question-and-answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: In 2017 revenues, you disclosed at the time of acquiring the entities the two entities together. So that time, the quarterly run rate was around USD17 million per quarter revenue run rate. Now this time, you have added only USD12 million. Is there a Y-o-Y decline in the revenue profile of the acquired entities?

Srinivas Palakodeti: So there are two things, the business, which we acquired from an entity, it had two divisions – one is the business which we acquired and the other one is the technology business which was sold sometime in October of last year to another organization. So the numbers by itself are not comparable - but what is available is the combined entity. What we had shared with you at the time of acquisition as well as subsequently we were aware there were some clients who were leaving and hence from a run rate perspective, the revenues are not too different from what we were expecting.

- Mohit Jain:** So what could be the annual number now for this year. At current rate, it looks like there is no seasonality so it will be USD48-50 million is it?
- Srinivas Palakodeti:** No, it will be if you take roughly, it is about USD8 million... close to USD9 million. So to annualize that, it will come to about USD36million. Mohit Jain: And USD3 million from the other one... so if I combine then, USD12 million into USD50 million. That is what we should assume going forward.
- Srinivas Palakodeti:** Yes.
- Mohit Jain:** Or is there a chance of a decline in the next few quarters?
- Srinivas Palakodeti:** No, I think on the steady state basis, this is what it would be at the current rates.
- Mohit Jain:** Second is again about the acquired entity - the kind of losses you have shown this quarter are way above what you are expecting, so anything on the cost side which surprised you or anything which can be non-recurring in nature?
- Srinivas Palakodeti:** As Partha mentioned, there was a client which exited – we knew it would exit - but it exited earlier than expected and the cost reduction is clearly taking longer than what we had expected. But that is something we expect to improve as we go through the rest of the financial year. The other thing is we had factored significant cost synergies, those from run rate perspective are on track in terms of renegotiating of telecom cost, telephonic cost, etc. Those are coming in place; they have got delayed because of some negotiation with vendors, etc. But from a run rate perspective, we expect to achieve what we had envisaged prior to the acquisition. The only other part which is again related to costs - we had assumed offshoring some of the costs from US to India. Some of them require client consent, etc., so those are taking more time than what we had expected. But at an overall basis, we expect the performance to improve from around October-November of this year.
- Mohit Jain:** When do you intent to break even?
- Srinivas Palakodeti:** Right now, there is a cost structure which we are addressing, second is in terms of synergies on the revenue side. So it is a function of how they pan out to reach the break even stage. But I think we will exit on a much healthier rate than what you see in Q1.
- Mohit Jain:** So probably by next year, we can assume your losses to turn into profit.. this year it looks tough?
- Srinivas Palakodeti:** Yes, we have to see how things are by the end of March but yes as I said, we expect things to improve from November-December of this year onwards.
- Mohit Jain:** Sir second is on receivables that number has also gone up. So anything there or is it purely because of acquisitions?

- Srinivas Palakodeti:** It is primarily on account of acquisition. As I said, we have reduced about Rs21 crores of debt in constant currency terms, but it is showing up less because of the rupee depreciation. So the other way to look at it is that we are able to reduce debt despite slightly lower profitability. So the issue of number of receivables is primarily on account of acquisition and some seasonality.
- Partha DeSarkar:** Mohit this is Partha. The strategic rationale of buying the company continues to remain. As you recall we have bought it at a significant discount given the fact that it was losing quite a bit of money when we bought it. The time we required to fix it is going to be a little longer because the losses are taking us longer to fix but I just want to assure that people who are listening to the call that the strategic rationale continues to remain strong, organically trying to build a business of this kind of capability and of this kind of nature would have cost us a lot more money and a lot more time. Therefore given the fact that the overall Healthcare portfolio does very well, it has the ability to absorb a little amount of loss that will come in the first year of this operation, I wouldn't be too concerned with the first year losses.
- Mohit Jain:** You paid USD 20 million for this.
- Srinivas Palakodeti:** No. USD 14 million just for this.
- Mohit Jain:** Together it was USD 20mn I think.
- Srinivas Palakodeti:** For Element it was USD 4.5mn
- Mohit Jain:** Yes, USD 19 million. And sir anything on the divestitures, you said in the opening remarks, you may look to divesting some of the businesses?
- Srinivas Palakodeti:** So, we are looking at our portfolio and there are business that we see will continue to have challenges and therefore we are exploring options of divesting some parts of our portfolio, which are not attractive anymore. It is a little premature to say anything beyond that because we do not have anything more specific than that. But that is a part of our strategy that we want to deploy this year.
- Mohit Jain:** So this is likely to happen in FY2019 only or this is more like a 20 when the actual transaction will happen?
- Srinivas Palakodeti:** Mohit, I cannot be more specific than that, I am just saying that it is something that we are actively exploring at this point of time. When they would close is difficult to say, I cannot be that specific. All I can say is that this is something that is under active consideration.
- Moderator:** Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.

- Shubhankar Ojha:** I missed this minimum wage related cost that you have mentioned in the call, what was the additional employee cost in the quarter?
- Srinivas Palakodeti:** It is about Rs13 crores - Rs2.9 crores to be exact.
- Shubhankar Ojha:** Rs 3 crores, and that is now recurring in nature for us, right?
- Srinivas Palakodeti:** Yes. I wanted to clarify: there is a gazette notification issued by Karnataka government and the wage increase is effective 30th of December, 2017... so there is an impact of that in Q4 FY2018, which we spoke about. Once the gazette notification came, HGS and several other companies - both from the BPO sector and other industries equally impacted (like retail, number of sectors) - they have all gone and filed an appeal in the High Court challenging this increase in minimum wage because the government needs to follow a certain process before and do a consultative process before they increase the minimum wage. Our view is that was not done. This was something which was done very arbitrarily, as I just said, at the end of the financial year. So we have got a stay but so far as a matter of prudence, we continue to make a provision for the minimum wage but we have actually not started paying out the minimum wage increase because of the matter being before Karnataka High Court. There was Delhi High Court ruling last Saturday which is on 4th of August. This of course matters to the increase in minimum wage, which the Delhi Government announced, which has been struck down by Delhi High Court. So we have to see. We believe the situation is similar but we have to wait and see how the final judgment or ruling comes from Karnataka High Court on this matter.
- Partha DeSarkar:** Yes. So to clarify, these are not actual expenses; these are probation in case the stay order gets repealed, but we are hopeful given that Delhi High Court judgment came in, that our appeal may go through. That's where we stand right now but we are providing for it to be conservative.
- Shubhankar Ojha:** So you are going to reverse it if you get a favorable chance then that is what the thing?
- Partha DeSarkar:** Yes, it has already been said it is just a provision being created, in case we have to do it. If we don't have to do it, then these provisions can be reversed.
- Shubhankar Ojha:** Okay. And sir secondly, this two newly acquired entities, what was the EBITDA loss did you get that number out?
- Srinivas Palakodeti:** Yes, that is there in our published numbers.
- Partha DeSarkar:** Shubhankar, if you look at what has been published, if you look at the EBITDA for Element Solutions that is about Rs2.6 crores positive and AxisPoint called CMH Services that is at about Rs27 crores minus.
- Moderator:** Thank you. The next question is from the line of Pay Master, an Individual Investor. Please go ahead.

Pay Master: Sir you have been making capital investment and expenditure of nearly 200 crores per year, but your profits are stagnating for last three to four years. Could you just give some reasons why the overall profits are not growing at all? Second question would be sir, regarding the acquisition made say three or more years earlier, how are they performing? Are they making profit? If you could give us some figure of the profit or of the acquisition made three years or earlier. And the third question would be, what is the target payback period you have when you make an acquisition? And the fourth question would be sir, what was the foreign exchange average dollar rate in the first quarter performance?

Srinivas Palakodeti: Okay. Let me address that, so first of all, if you look at the performance of FY2018, we did about Rs192 crores, up from about Rs179 crores which came in FY2017. So our profits have increased. There have been some challenges we have addressed, so FY2017 and FY2018 have shown an increase in net profits compared to what it was in the prior period. I think FY2018 was the highest ever in the company's track record so far.

From a CAPEX point of view, I am not sure of the figure of Rs200 crores because our CAPEX which we had in FY2018 was about in the range of about Rs 126 crores. It was higher in the past but as we have said, we have taken a model, which is more on a CAPEX line or mode of the infrastructure, etc., towards an OPEX model, so we do not need to incur those kind of expenses we have had in the past for the CAPEX side. So that was the second question if I recall correctly. And from OPEX seats, you know there is an impact of 4.7% between the quarter ending June of '17 and June '18. So I think these are the three questions. I think there is a fourth which you put.

Pay Master: No, what was the average dollar rate which was taken into consideration in your accounts, accounting the revenues?

Srinivas Palakodeti: It is about 67.4.

Pay Master: Okay. And secondly, I had asked about the acquisition made three years or earlier, how are they performing... are they breaking even or making profits or they are still a drag on your profits?

Srinivas Palakodeti: I will take a slightly longer view. If you look at around five years back, we acquired a business called EBOS... that is a business, which has more than doubled in size and which is doing well. We also acquired a Healthcare platform called as Colibrium. As Partha mentioned, there were some challenges last year but we expect this year to be significantly better from a performance perspective than what we had in FY2018. The other business that we acquired was on the India CRM side - something which we acquired around three years back. That business did well starting from March 2016. But of course, now it is part of the India CRM Business and it does face challenges same as rest of the India CRM business, because of what is happening on the telecom side.

Pay Master: What is the target payback period you have in mind when you make an acquisition approximate?

- Srinivas Palakodeti:** Yes, typically it would take four to five years.
- Pay Master:** And the last question would be sir... what is the mix between voice and non-voice business?
- Srinivas Palakodeti:** Around 70 to 78% of our revenues would come in from what we call the traditional voice business, there is about 4 to 5% which comes from what we call digital CRM services which are basically interacting with the customers through email, chat, social media. And the balance would come from non-voice back office services.
- Moderator:** Thank you. The next question is from the line of Harshad Mukadam from Vibrant Securities. Please go ahead.
- Harshad Mukadam:** I know you have answer this but, I think you attributed the de-growth and domestic revenues to the telecom operations right, so how do we see this number going forward like is it going to continue de-growth or will it stabilize.
- Partha DeSarkar:** No I don't see it stabilizing. It will continue to de-grow and that is the headwind I mentioned; so the India domestic business is impacted by two different factors, one is the increase in minimum wages that we talked about in Karnataka... it has been very-very dramatic, it is high as in one go, it is as high as 60-70% increase. So that is from a cost perspective. From a revenue perspective, there is a lot of rationalization happening on the telco front, as a result of which, there is a significant drop in volumes and therefore there is lower capacity utilization. So this situation is not going to sort itself out very quickly. While the Karnataka minimum wage, as we explained, it is something that we have challenged in the court one never knows. But the Delhi High Court order which came e last weekend has been very encouraging. We believe that we have taken a correct stand in appealing for that. So that would possibly get reversed, which means that the cost pressure, that kind of an increase in minimum wage will probably be reduced. But on the revenue side, I don't see the situation sorting itself out quickly.
- Harshad Mukadam:** And my next question is related to cost now, actually the cost has gone up quite a bit Y-o-Y and Q-on-Q, so I think you said Rs129 million is attributed towards the increase in minimum wages but the rest of it is that because of acquisitions?
- Srinivas Palakodeti:** I would like to clarify - after factoring this Rs13 crore impact of minimum wages, the core business has an EBITDA margin of about 9.55%. If the minimum wage impact was not there, it would be in the range of about 10.5 to 10.6%. The drop in the margins from this legacy business to the final overall reported number is primarily on account of one of the acquisitions that we made.
- Harshad Mukadam:** Okay. You think the margins will go back 10, 11% level one these acquisitions breakeven?
- Srinivas Palakodeti:** Yes. As the acquired entities' performance improves, we expect to see a margin improvement.

- Moderator:** Thank you. The next question is from the line of Madanlal S, an Individual Investor. Please go ahead.
- Madanlal S:** Sir I am Madanlal on behalf of Sita Kumari. Sir I have invested a huge amount on Hinduja Global Solutions. Sir I am one of top individual shareholders in the shareholding pattern... I am Mr. Madanlal on behalf of Sita Kumari. Sir we have acquired AxisPoint for something around Rs87 crores and in the first quarter itself we are getting a loss of Rs30 crores; if one quarter loss is Rs 30 crores, then the next quarter assuming it may be Rs20-25 crores means the first-year loss will be more than the acquisition. If I am right sir?
- Srinivas Palakodeti:** If we allow things to be the way it is, then it will be bad. Yes, but that's not the plan. The plan is to fix the business.
- Madanlal S:** Yes, sir this is the only question I have, by seeing the result I am shocked on this that is why I asked you sir.
- Srinivas Palakodeti:** No, the plan is to fix the business.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. R Ravi for closing comments.
- Ramalingam Ravi:** Thank you Margaret. Again, Ravi here. Thank you to all the participants for joining us on the conference call. If there are any further questions or clarifications about the Q1 FY2019 financials, please e-mail it to me or Pala – the CFO and we will be more than happy to get back to you. This is Ravi signing off on behalf of HGS Management. Thank you all.
- Moderator:** Thank you. On behalf of Hinduja Global Solutions Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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