Hinduja Global Solutions
Q4 and Full Year FY2014 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 Q4 and Full Year FY2014 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 pressing '*' 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, Mr.Bijay Sharma.

Bijay Sharma Thank you, Saima. Good afternoon and welcome everyone to Hinduja Global Solutions Q4 and Full Year FY2014 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. Partha DeSarkar to provide his perspectives on performance for this year. Over to you, Sir.

Partha DeSarkar Thank you Bijay. Welcome everyone to Hinduja Global Solutions Q4 and Full Year FY2014 Earnings Conference Call. We hope that you had a chance to review our presentation and financials which are available under the 'Investors' section of our website. I would like to start by providing an overview of this year's financials followed by the highlights of our operational performance across geographies. Post 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.

We are delighted to inform you all that HGS recorded its best ever annual performance in terms of revenues and profitability this fiscal year. Our FY2014 consolidated revenues crossed Rs. 25,000 million mark, representing an increase of 26% compared to the last year. This robust growth was driven by new client additions as well as increased volumes across geographies and verticals, and was supported by optimal utilization of our global facilities and favorable exchange rate variation. We added 119 clients for the full year, 14 in the CRM business and 105 in the Payroll business. Of the total revenue growth, 14.6% was contributed by increase in volumes, 1.6% from the EBOS business and the remaining 10% from favorable exchange rate variation.

Our consolidated EBITDA for the year was Rs. 3,219 million, representing a growth of around 44% compared to the same period last year. This growth was driven by better capacity utilization levels across all geographies. Our efforts towards enhancing EBITDA margins have started yielding results.The EBITDA margins have increased by 157 basis points to 12.9% compared to the last year. Various performance management and cost control measures have been undertaken during the year that has helped us improve our margin. A strategic approach towards rationalization of the India domestic operations also supported this improvement.

Consolidated PAT for the year increased by 87% compared to the last year to reach Rs. 1,696 million. This improvement was due to higher operating profits, coupled with lower interest expense as a result of debt repayment and better working capital management. The PAT margin for the year was at 6.8%, an improvement of 220 basis points compared to the same period last year. FY2014 PAT includes benefits of lower tax expense due to the MAT credit availed of Rs. 126.2 million during the year and the impact of higher tax of Rs. 82.6 million on account of dividend from a foreign subsidiary.

Moving to the quarterly performance, our consolidated net sales increased by 21.9% on a y-o-y basis to Rs. 6,415 million, driven by increase in volumes from existing customers and new client addition. EBITDA increased by 12.5% y-o-y to Rs. 853 million. This improvement was due to better capacity utilization levels across all geographies. Ramp up cost of our two new centers in Philippines adversely impacted the EBITDA margin. We also had startup cost in the UK for our new public sector projects that went live in April pertaining to certifications for NIFO standard. PAT for the quarter was at Rs. 349 million which included the

MAT credit availed during the quarter and was impacted by higher tax on account of dividend from a foreign subsidiary.

In terms of the operational highlights of the key geographies where we operate, the performance of our US operations remained robust and verticals such as telecom, healthcare and consumer were the key contributors to the growth profile. We recently signed a major contract with a financial services company for onshore delivery. The US operation also won its first significant healthcare contract for onshore delivery. In March 2014, we started a new center in Princeton, NJ to focus on client-facing activities for our extended business process solutions (EBOS) and to help deliver expanded capability for clients. The Princeton facility will provide services such as medical claim resolution for governmental and commercial players, medical coding, insurance eligibility & authorization and data analytics. The US operations' strategic priority is to maintain future growth prospects by placing greater emphasis on existing client retention through innovative service offerings. During the year, HGS strengthened its sales and marketing team in the US. This has enabled the Company to focus on larger and more complex client assignments with multiple geography delivery models across verticals. Further, the recent healthcare reform in the US has created new opportunities for HGS. The Company is also benefiting from the implementation of the Accountable Care Act (ACA) and is better placed to capitalize on the additional opportunities arising in this sector.

Our Canadian operations continued its strong growth momentum. During the year, the operations received significant contracts for new lines of services from existing clients. These wins were a combination of onshore and offshore solutions, and HGS Canada added over 600 FTEs to service these clients. The operation continues to invest in its sales and marketing team with the objective of benefitting from the better alignment of economic trends and client needs in Canada. Having developed a robust sales pipeline, from existing as well as new clients, HGS Canada remains focused on increasing its offshoring contribution.

Despite the difficult economic scenario prevailing, our European and UK operations performed in line with management expectations. Volumes however remained soft but the operations experienced some early signs of improvement in the second half of the fiscal year. The UK operations recently signed a contract with a British government department for providing support in over 22 languages for e-mail, chat and phone. This contract is expected to drive revenue and profitability from FY2015. The operation has also secured new contracts for consumer, telecom and automotive sector clients during the year. HGS Europe and UK continues to focus on building new business pipelines in the government, retail, consumer goods and telecom sectors. Furthermore, it also plans to deliver multi-channel capabilities with innovative solutions around digital sub-service, web chat and social media. Based on the gradual improvement of macroeconomic situations in Europe and better traction from clients across verticals, HGS expects significant improvement in the performance of this geography in the coming years and the initial signs in Q1 FY2015 are encouraging.

The Philippines operations demonstrated a notable improvement during the year and successfully addressed the issue of excess capacity. During the year, Philippines emerged as one of the most preferred delivery destination for all clients.To address this strong demand we plan to open a third facility in Alabang near Manila by July 2014. Our two new centers in Alabang were opened in February 2014 and are currently in ramp-up mode. They are expected to contribute meaningfully to profitability from the first half of FY2015. HGS Philippines also started servicing its first offshoring client from Canada and is expected to add additional seats for this engagement in FY2015. The operation continued to build strong sales pipeline across verticals such as telecom, healthcare, consumer, financial services and media. Anticipating the benefits from the ongoing healthcare reforms in the US, the Philippines operation is expected to increase offshore volume from clients in the verticals going forward. The only cloud in our Philippines operations has been our Japanese consumer electronics clients. They have been struggling in their market place. This has reflected in much lower call volumes than what we have historically experienced. We have also had to ramp down the team to adjust to lower business from them.

Our India International operations continue to perform well driven by robust growth across all key clients, primarily in the healthcare vertical. The operation has received increased traction for new lines of services. During the year, HGS expanded its presence in the Middle East region with Urdu language support for the telecom client and continues to explore additional opportunities in the region to further strengthen its position.

The EBOS business acquired during October 2012 has been performing as per our expectation and has also added a new service line of medical coding during the year. However, the coding cut over for ICD-10 in US has been deferred by one year and therefore the growth from this opportunity will be slower than what we initially had expected.

The India domestic operations profitability experienced remarkable recovery during the year. The growth was driven by initiative of ongoing assessment of client profitability and corrective actions undertaken. During the year, we strategically exited unprofitable accounts and received rate increases from various clients, which supported the improvement in performance. The operation remains focused on diversifying client base across verticals in seeking selective growth opportunities with emphasis on better profitability.

In a nutshell, HGS has been consistently delivering robust performance despite the overall challenging economic scenario. This growth has been broad-based across geographies. However, the performance of European operations remained soft but we expect this to improve in the coming year, driven by positive macroeconomic indicators. Further HGS' selection of one of the four outsourcing provider for the UK government outsourcing business will support the growth targets we have set for ourselves here.

Our continuous focus on investments to strengthen our sales and marketing team has started yielding results. This has enabled us to build a strong sales pipeline across verticals, which give us the confidence that the company will continue its strong growth trajectory along with margin improvement, and thus further enhance shareholder returns.

In the context of the strong performance, the board has recommended a final dividend of Rs. 10 per share bringing the total dividend for the year to Rs. 20 per share.

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 today on the call.

Srinivas Palakodeti Thank you, Partha. Good Afternoon everyone and thank you for joining on our Q4 & Full FY2014 Earnings Conference Call. As mentioned by Partha earlier, our financial performance achieved new heights during the year. Our consolidated revenue for the year was Rs. 25,049 million representing an increase of 26.3%. We had acquired the EBOS business in October 2012, which needs to be factored while comparing with the financials of FY2013. EBOS business accounted for about 1.6% of FY14 annual revenues. Of the remaining growth, around 14.6% was organic growth, driven by increased volumes and existing clients as well as new clients.Balance 10% was on account of exchange rate variation of the dollar versus INR and the dollar versus peso.

In terms of exchange rates, the average rate for the US dollar to the rupee was 60.78 as compared to 54.45 for FY2013. Average exchange rate for the Philippine Peso to the US dollar changed from 43.72 for FY2014 from 41.51 for the year ended March 2013. As of March 2014, the US dollar to the rupee rate was 60.06 while dollar to the peso rate was 44.77.

In terms of exchange rate movement compared to the quarter ended December 2013 the rupee appreciated 0.7% against the US dollar and significantly higher, around 5% against the Canadian dollar.

On the overall mix of currencies, rupee has appreciated around 2% during the quarter ended 31st March 2014. The rupee appreciation combined with portfolio churn of low profitability account has led to a marginal drop in top line compared to the quarter ended December 2013.

Consolidated revenues for the quarter ended March 2014 stood at Rs. 6,415 million, an increase of 22% over quarter ended March 2013. Of the total growth, around 12% was on account of higher volumes and the balance 10% was on account of exchange rate variations. As we have said in the past, as a part of our exchange risk management policy, we continue to take forward covers and for FY2015 we have forward covers in the range of 60 to 64. We need to hedge the revenues which are offshore origination and delivered in India or Philippines. These account for roughly around 38.7% for the quarter ended March 2014 and around 37.4% for the financial year.

From the revenue breakup perspective, the performance across all geographies has been as per expectations. During FY2014 US accounted for 59% of the consolidated revenues as compared to 58% in FY2013. Canada has shown significant growth and now accounts for 22% of consolidated revenues as compared to 20% in FY2013. UK and Europe have a share of 10% as compared to 12% last year, and India accounted for 9% as compared to 10% last year. The contribution from UK and Europe declined due to softness in volumes while contribution from India reduced by around 100 basis points primarily due to the rationalization of the domestic operation. However, revenues of HGS Business Services (HRO) business grew around 20% in FY2014.

In terms of revenue contribution by verticals, the technology, telecom sector and healthcare sector continue to dominate, with telecom and technology at 32% and healthcare at 28%. Contribution from the telecom and technology vertical increased marginally from 31% in FY2013. The contribution of healthcare vertical increased significantly by around 3% as compared to last year to reach 28%. This increase is on account of the EBOS acquisition as well as growth and volumes from new and existing clients. Consumer Electronics vertical contribution declined from 17% in FY2013 to 16% in FY2014 due to difficult market conditions faced by our key clients. Contribution from other verticals has remained flat and accounts for around 18% overall. These comprise BFS, media, chemicals and biotechnology.

EBITDA for the quarter ended 31st March 2014 increased 12.5% as compared to Rs. 853 million for the quarter ended March 2013, driven by better capacity utilization across all geographies. EBITDA margin for the quarter ended 31st March was 13.3%. Profitability for the quarter-ended March 2014 was impacted due to ramp-up cost in Philippines, as well as set up costs for the UK government project, which went live towards the end of the quarter. Our consolidated EBITDA for the year was Rs. 3,219 million, representing a growth of 44% as compared to FY2013. Our EBITDA improvement has driven by optimal capacity utilization. EBITDA was softened to some extent due to new sites opened in January 2014 in Philippines. Our EBITDA margin has improved by 157 basis points to 12.9% for the full year. Various performance management and cost control measures taken during the year have enabled the margin enhancement. Our strategic approach of rationalization of India domestic business has also supported the improvement in EBITDA margins.

Employee benefit expenses for the year increased from Rs. 13,412 million to Rs. 16,921 million in FY2014. As a percentage of total revenues these remain flat at 68% despite an increase of headcount of roughly about 13%.

Depreciation expense for the year increased around 12% compared to last year. However, as a percentage of revenue, it declined marginally from 3.9% to 3.4% in the current year.

Interest expense for the year declined by around 12% as compared to the same period last year. This decline is primarily due to debt repayments and better working capital management. Interest expense accounts for around 1.5% of total revenues as compared to 2.2% of the revenues for last year.

Our profit before tax was Rs. 2,309 million, representing an increase of 70% compared to the same period last year. During the quarter ended 31st March 2014, HGSL India received dividend from its overseas subsidiary of Rs. 4,860 million, which led to additional tax provision of Rs. 82.6 million. As a result of the tax on dividends received from the foreign subsidiary, the dividend distribution tax payable by the company during FY2014 correspondingly reduced.

PAT for the year increased by 87.2% to Rs. 1,696 million compared to FY2013. PAT for the year included MAT credit availed of Rs. 126 million and tax on dividend of Rs. 82.6 million. The MAT credit and the tax on dividend offset each other.

The return on capital employed excluding the cash deployed has increased from 12.3% last year to around 16.5% in FY2014. We are comfortable with our capital structure. Our total debt as of 31st March 2014 was Rs. 6,342 million. Our cash and treasury surplus at the end of the year was Rs. 5,618 million resulting in a net debt of Rs. 724 million. Our net worth at the end of FY2014 was Rs. 14,521 million, and based on the current debt we have a conservative leverage position of debt-equity of 0.4x and net debt to EBITDA of 0.2x.

Our total headcount as of 31st March 2014 was 26,036, an increase of approximately 360 employees compared to December 2013. Headcount has increased across all geographies. There was a significant increase in the headcount of Philippines operations compared to December 2013 due to the new facilities which opened in Alabang, near Manila. Of the total headcount 58% are based in India, 17% in Philippines, 10% in US, 12% in Canada, and the remaining are in UK and Europe. The total number of seats as of March 2014 was 26,385, an increase of 1,984 seats compared to December 2013.

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

Moderator: Thank you very much Sir. Participants, we will now begin the question and answer session. We have the first question from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.

Shubhankar Ojha: What was the free cash generation for the financial year?

Srinivas Palakodeti: After taking into account the working capital changes, the total consolidated cash flow from operations is about Rs. 235 crores.

Shubhankar Ojha: Before EBITDA numbers, you mentioned there were costs included related to some new centers which has impacted your margin for the quarter?

Srinivas Palakodeti: There were certain costs which were incurred during the quarter. One is as you said we started on a project for the UK government in London and this project went live virtually on end of the year. In addition we had cost related to two new facilities which opened in Philippines. We expect these two expansions amounted somewhere in the range of Rs. 5.5 crores.

Shubhankar Ojha: Could you give us some idea on the growth outlook and the deal pipeline?

Partha DeSarkar: We think that the demand environment is actually pretty good. I think UK is starting to pick up, US continues to remain strong. In the first half of the year, there may be some initial softness from Canada. Philippines in particular has very high growth trajectory, we have added 3 centers during the year. So offshore growth is good, US growth is good, UK growth is back. There may be some softness in Canada in Q1 FY2015 but we expect that to recover from Q2 FY2015 onwards.

Shubhankar Ojha: Basically, this year our dividend was Rs. 20 per share which works out to payout of close to 23% on an EPS of Rs. 82 and last 5 years our payout was significantly higher, this is the fifth year we have paid at Rs.20 per share dividend and payout ratio for the year has been one of the lowest. Would you share any thought on why the payout is so low?

Partha DeSarkar: The Board debated that at length and I think we are one of the higher dividend yield companies last year and the Rs. 20 dividend that we have paid consistently through good years and through bad years has been our confidence that even though we have had some challenges with profitability earlier, we have a view of the fact that the profitability will improve, and therefore we have not made any changes. So the Board decided that they will keep it at Rs. 20 even though we debated a higher amount.

Shubhankar Ojha: So this 24% of payout ratio, should we assume that this is the new normal payout assuming that you are going to do a similar kind of profitability and a consistent growth going forward?

Partha DeSarkar: It is a little premature to predict for the coming year because that will be a function of what our profitability is going to be for the coming year, which we expect to be strong. I think it is a little premature to comment right now.

Shubhankar Ojha Good to see the ROCE improvement from 12.3% to 16.5% excluding the cash. Any target that you have internally set kind of ROE that you would be like to achieve?

Partha DeSarkar: We will probably try to improve it beyond the point where it is today. As you know there is seasonality in our business, the first half of the year is going to be a little slower and it is going to pick up in the second half. There may be a little drop in the first half but the second half will be strong.

Shubhankar Ojha: HGS is one of the most inexpensive stocks in the entire mid cap universe, especially in the IT universe. We trade at 6x P/E and 3x EV/EBITDA which makes HGS the cheapest IT stock. Any thought process that you would like to share with us on how you can probably improve on these multiples or create more value for the shareholders?

Partha DeSarkar: I do not think I can comment on a question like that. You are saying that it is one of the cheapest stocks. So that is probably the reason why people should be interested in the stock.

Shubhankar Ojha: This has been the cheapest for a long time, although the multiples have improved over the last one year. HGS is still the cheapest stock in the entire IT and mid cap universe?

Partha DeSarkar: If you compare our performance with the CNX IT Index, we have been outperforming the index.

Moderator: Thank you. The next question is from the line of Senthil Kumar from IDBI Life Insurance. Please go ahead.

Senthil Kumar: Despite the performance have improved, dividend policy also as you mentioned has been consistent across the years, liquidity remains a concern. How do you plan to improve that?

Partha DeSarkar: Do you have a suggestion?

Senthil Kumar: Probably, stock split or bonus issue.

Partha DeSarkar: We will take that suggestion to the Board.

Senthil Kumar: Because that is playing a major role.

Partha DeSarkar: What we have seen is our institutional investors have been holding on for a very long time. We recently had one new investor who has come in which is a fund from the US, picked about 4.6% of the company; you would have seen the block deal that has happened. So there is interest in the stock. Unfortunately, you are right, the liquidity is difficult. So we will take your suggestion to the Board and then we will deliberate and come back to you.

Vijay Sarda: This is Vijay. We have been speaking to many funds, most of them share the common feedback that the stock is good but still people have confusion in terms of the debt and cash. Secondly, whenever some fund want to get into they would not be able to get due to the liquidity issue and the impact cost is higher. What are your views on this and how do you plan to address it.

Partha DeSarkar: Pala will explain to you what we have done in terms of bringing in the dividend from our subsidiary. That will explain some of the concerns that you just had. The second part is about liquidity. And as I told you, we are happy to hear from you what suggestions you have.

Senthil Kumar: Further to add a point, we are talking of the dividend issue that has happened in this current quarter. What Vijay was saying is on a holistic basis across years.

Vijay Sarda: If you can spell out any policy in terms of payout. Because if we have a policy in place like 30% payout or 20% payout, , investors would be confident that if earnings are growing they will get a higher dividend accordingly.

Partha DeSarkar: I will communicate that thought to the Board.

Vijay Sarda: Because last time I think we discussed on the dividend payout and that has helped well. .Eventually you split the dividend over three times, which has helped in removing volatility.

Partha DeSarkar: That was a good suggestion. I appreciate that suggestion you made. We have to say that the Board did consider whether we have to keep it at Rs. 20 or whether we increase, and then finally we decided that we keep it at Rs.20.

Vijay Sarda: Ultimately, it is the Board's decision

Partha DeSarkar: We listen to what our analysts and investors have to say and we communicate and we try to act accordingly. So we will take your feedback to the board. That much I can assure you. I would now want Pala to explain to you what exactly we have done with the subsidiary cash.

Srinivas Palakodeti: The dividend which was declared of Rs. 48 crores, there was a provision made for the same. As per Income Tax Act, if you bring dividend from an overseas company, you are liable to pay tax, but to the extent you pay tax on the overseas dividend, you do not have to pay the dividend distribution tax. The window for this clause was available between 1st April and 31st March 2014. So we have availed that. This has helped us to bring in roughly Rs. 48 crores minus Rs.8 crores, about Rs.40 crores which we will use for the working capital management in India. Now, as far as cash which is still outside, that money is available for any new ventures in terms of investing into new geography or as any acquisitions. We have been using a combination of debt and equity for any growth or acquisition. Primarily our cash is in Mauritius, where tax rates are close to zero - it is around 3%, and the debt is taken typically in India where the tax rates are upwards of close to 34% or in markets like the US, the UK, and Canada, where the rates are in the range of 20% - 38%. We believe this helps us to do our tax planning as well as able to have the liquidity to do any growth, whether organic or through acquisition.

Participant: I want to understand, by holding cash and by payout, the other income which comes as an interest income and the income that goes as a finance cost, are we matching out there or are we losing something?

Srinivas Palakodeti: At a gross level, they will not match; we have to do it on a post-tax basis, where we think we are better off.

Partha DeSarkar: And also, one thing that Pala you should mention is the fact that the dividend was brought in, the tax on the dividend has actually gone above the line, which is different. So you are seeing the impact of bringing the cash, something that we have always been very wary of, because we have always had this issue about bringing the cash to India and suffering the hair cut, but we did it this time, because there was a window available to offset it against the dividend distribution tax, but that has actually impacted our reported earnings by Rs. 8 crores. So, it is a cash flow versus reported number issue.

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

Mahesh Bendre: At what rate we have booked the revenue in this quarter in terms of Canadian Dollar and British Pound?

Srinivas Palakodeti: Average rate for the quarter as far as US dollar is concerned is 61.52, and the Canadian Dollar it is about 55.5 and British Pound is about 102.3

Mahesh Bendre: Sir, you mentioned that the volume growth for the quarter was around 17%, am I right?

Srinivas Palakodeti: Revenue growth for the quarter ended March 2014 as compared to the March 2013, about 22% was the total growth, of which 10% is on account of exchange rate.

Mahesh Bendre: So 12% is volume growth actually.

Srinivas Palakodeti: Yes that is right.

Mahesh Bendre: Sir, what is the utilization across our facilities and volume growth we anticipate for next year?

Srinivas Palakodeti: There are some seats empty in India, because we are choosing not to do certain types of business. Beyond that we are operating at optimum capacity except the new centers which are ramping up in Philippines. And as we said, looking at the growth potential and the pipeline, we are opening one more center in Philippines by July 2014.

Mahesh Bendre: During the current quarter, our sales have grown by around 22%, but employee cost has also gone up by 27%. So is this the impact of wage hike?

Srinivas Palakodeti: It is also where the employees are going, right As we said, on a full year basis, our employees grew 13%.We are reducing our headcount in the India domestic business, but we are adding headcount in Philippines and some in Canada, where obviously the wage rates are higher. But I think more important is to look at it as a percentage of revenue.

Mahesh Bendre: And Sir, for the full year FY2014, our volume growth was somewhere around 15%. So when we go into FY2015, based on your own assessment of the situation what kind of volume growth one should expect?

Srinivas Palakodeti: You know we do not give guidance, all we are saying is we have a good pipeline and things look good.

Mahesh Bendre: Will it be better than the last year, any indication?

Partha DeSarkar: Yes, we will like to match last year, one caveat of that would be that there are some more accounts that we may want to exit from because we find them not to be very profitable. There will be some portfolio shakeups still happening, so the growth will be coming on account over and above that portfolio shakeup that we will continue to do.

Mahesh Bendre: So that portfolio will be largely domestic or it will be in the international arena?

Partha DeSarkar: No, it will be mixed; domestic cleanup is more or less done, so there is not anything left in the India domestic that we want to exit right now, because it is now making money. There may be some other international accounts where we want to exit because they are not as profitable as we would like them to be.

Mahesh Bendre: The outlook on the operating margins, this year, the margins have gone up by around 157 basis points at EBITDA level. So what is the outlook for next year?

Partha DeSarkar: So, again we will not be able to give you a specific number; there will be a little bit of margin softness in the first half of the year which has been typical. Second half of the year we will again pick up. We would like to improve beyond the numbers that we have reported for the full year basis.

Mahesh Bendre: The currency has become a major issue now, if the rupee appreciates from here on, how this will impact us in terms of margins?

Partha DeSarkar: Mahesh, I have to give you a disclaimer this is a matter of personal opinion. I do believe that the rupee cannot appreciate in isolation, there are fundamental factors of the economy that have to be corrected before the rupee starts to appreciate on a long-term basis, which is obviously around inflation and deficit. Unless inflation and deficit is controlled, the rupee strengthening that you are currently seeing is not sustainable, it will start to weaken again. So unless we do something fundamentally in the way inflation is managed, or deficits are managed, whatever strengthening that you are currently seeing of the rupee is on account of the good election results, but unless the economy backs up that, it will be difficult to sustain.

Srinivas Palakodeti: Mahesh, just to add, at any stage, irrespective of where is the level of the rupee, as far as the rupee versus the dollar is concerned, this always has been at a premium, there are always forward premiums and not discounts going forward So even if today the rupee is 58.5, and if you want to sell dollars 12 months from now, you will get a premium.

Partha DeSarkar: Which means outlook of the banks is that rupee will depreciate in the long run.

Mahesh Bendre: At what price we have hedged the rupee?

Srinivas Palakodeti: We do it on a rolling 12 month basis, so FY2015 you have rates starting from about somewhere in the range of 60 to 64 broadly.

Moderator: Thank you, we have the next question from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: Partha, if you can comment on the growth outlook next year, will we be able to keep up with the industry on a consolidated basis given that some softness as you just explained might still linger around in the first half?

Partha DeSarkar: So the NASSCOM number is around 13% to 14%, if you go back to our track record for the last 5 years, we have grown at the rate of 25% and above on a CAGR basis for the last five years, so that has been our track record. We have almost been double the growth number, the NASSCOM has predicted. So when you ask for industry comparison that is where we are. I talked to you about the overall situation of demand that we are seeing, we are seeing that UK and Europe are coming back, we are seeing US at a constant basis, offshoring momentum is increasing, the only softness that we see as we head into this fiscal is in Canada, which we are seeing for the first quarter and we expect that to come back again in Q2 FY2015.

Ankit Pande: What was the volume growth mentioned for this year?

Srinivas Palakodeti: About 14.6% is because of increase in volumes.

Ankit Pande: May I know where exactly is dividend income placed in the P&L this quarter?

Srinivas Palakodeti: What I would suggest is, look at the standalone results, it is from a subsidiary, in consolidated accounts, it will get eliminated, but in the consolidated statement there is a footnote, Footnote No. 4

Ankit Pande: Right in the tax?

Srinivas Palakodeti: Correct, you look at the standalone results, where we have clearly said there is Rs.48 crores of dividend income.

Ankit Pande: Could you just give us a geographical breakup of cash?

Srinivas Palakodeti: Bulk of the cash is in Mauritius.

Ankit Pande: So how much will that be, 70 or 80%?

Srinivas Palakodeti: Yes, roughly.

Ankit Pande: And the rest is in?

Srinivas Palakodeti: What we call operational cash as opposed to treasury cash, in the sense, each business would be generating cash and utilizing it. So as a balance sheet figure, this money gets used in operation.

Moderator: We will take the next question from the line of Elizabeth John from CRISIL. Please go ahead.

Elizabeth John: You highlighted about the Philippines, the ramp up cost that we did this quarter. If you could give some guidance or some perspective in terms of how much more cost you want to incur for the Philippines center?

Partha DeSarkar: We do not give guidance. The ramp up is continuing and that is a good sign actually because it will convert to revenue very soon.

Elizabeth John: Not in terms of guidance, in terms of number or something, but will it be still in the Q2 FY2015 that we will see going forward?

Partha DeSarkar: In Q2 FY2015 you will see the revenues come in.

Elizabeth John: I was looking at the employee trend, US on a q-o-q basis, there was a decline. So how I read that as?

Partha DeSarkar: There is seasonal hiring that happen in the US that declines as the quarter closes.

Elizabeth John: And one last thing is about the revenue by vertical wise, telecom and technology had sequential decline. So any particular client or how should we take that?

Srinivas Palakodeti: We have quit some unprofitable clients, and there is also some seasonality in that business as well.

Moderator: We will take the next question from the line of Pranav Mehta from ValueQuest. Please go ahead.

Pranav Mehta: Revenue from the US is Rs.158 crores in this quarter versus Rs.186 crores in Q3 FY2014.

Srinivas Palakodeti: There is some which is this seasonality part, and secondly there is impact of the exchange rate.

Pranav Mehta: No client specific ramp downs or something like that?

Srinivas Palakodeti: No, but there is this healthcare vertical which have this open enrolment, so most of the activity on the healthcare happens during October to December, and subsequently, some of it tapers off, but that is the part of the business.

Moderator: Thank you. We have the next follow- up from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre: What is the capital expenditure plan for the current year?

Srinivas Palakodeti: This year it was about Rs. 150 odd crores, it will be somewhere in that range.

Mahesh Bendre: In which geography this will take place?

Srinivas Palakodeti: I think across all geographies.

Mahesh Bendre: What could be the tax rate one should look at for FY2015-2016?

Srinivas Palakodeti: On a BAU basis it will be 27 to 28% range.

Moderator: Thank you. We have the next follow-up question from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: The Canadian ramp up that we mentioned in the document at 500 seats or so, when that going to start in the second half?

Partha DeSarkar: This refers to the growth that we had last year. The Canadian business has grown phenomenally in the last year Pala, you have the exact numbers, right, and can you give the exact numbers?

Srinivas Palakodeti: That was 28 %

Partha DeSarkar: So that 28% growth has been on account of the 500 seats that have already been built for Canada.

Ankit Pande: So, you are not sharing or indicating any sort of volume growth that to come?

Partha DeSarkar: On the coming year, no, we do not give any guidance What I am saying is on a qualitative basis I can tell you, that the Canadian growth numbers will be soft in Q1 FY2015, expected to pick up from Q2 FY2015 onwards.

Ankit Pande: I was a little bit curious about the Consumer Electronics, the commentary in the UK and EU, how much are we exposed to in the Consumer Electronics? That is where I think we are saying that there is a macro recovery, so things can improve there.

Partha DeSarkar: No, Consumer Electronics is not big in the UK, it is big in Philippines. There some of our clients are Japanese clients, and as you well know the Japanese consumer electronics players are actually facing severe pressure from Koreans and Apple.

Srinivas Palakodeti: And the Canada growth was 23%

Moderator: We have the next question from the line of Bekxy Kuriakose from Principal Mutual Funds. Please go ahead.

Bekxy Kuriakose: My question is, regarding the borrowing profile, can you elaborate a bit on that. What would be the mix between short term and long term borrowings? And for FY2015 how do you see your borrowing, will it go up or remain same?

Srinivas Palakodeti: Out of about Rs.634 crores of debt, about Rs.530 crores is roughly long-term debt, the balance is short-term debt. Some of the long-term debt could move into short-term in nature, and whatever are the existing prepayments those will continue. Typically, in lot of geographies there is a prepayment penalty, so we are trying to restructure debt in such a way that we can reduce the debt without incurring any prepayment cost. We are switching from long-term to short-term within the same facility.

Bekxy Kuriakose: What would be your weighted average cost of borrowing?

Srinivas Palakodeti: In India, it would be in the range of 10% to 12%, whether it is short-term or long-term. In overseas, the debt would be in the range of 3.5% to 4% assuming LIBOR is at 0.4 to 0.5%.

Bekxy Kuriakose: What would be the breakup between overseas and India domestic borrowing?

Srinivas Palakodeti: Bulk of it is overseas, the India debt would be roughly somewhere in the range of about Rs.156 crores, out of the Rs.630 crores, the balance is all overseas.

Moderator: Thank you, As there are no further questions from the participants, I now hand the floor back to Mr. Partha DeSarkar for closing comments, thank you and over to you Sir.

Partha DeSarkar: Ladies and gentlemen, thank you for your time to be with us today, we look forward to meeting with you again in a conference call for the next quarter.

Srinivas Palakodeti: Thank you, everyone.

Moderator: 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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