

Hinduja Global Solutions
Q4 and Full Year FY2015
Earnings Conference Call

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

Mr. Srinivas Palakodeti – CFO, Hinduja Global Solutions



Moderator: Ladies and Gentlemen, Good day and welcome to the Q4 and Full Year FY 2015 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. Bijay Sharma. Thank you, and over to you sir.

Bijay Sharma: Good afternoon and welcome everyone to Hinduja Global Solutions Q4 and Full Year FY2015 Earnings Conference Call. Joining us today on this call are Mr. Partha De Sarkar – 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'. I would now like to invite Mr. Partha to provide his perspective on the performance for the year. Over to you, sir.

Partha DeSarkar: Thank you Bijay and welcome everyone to Hinduja Global Solutions Earnings Conference Call for Q4 and Full Year FY2015. We hope you had a chance to review our 'Presentation' and 'Financials' which are available under the 'Investor' section on our website.

I would like to start with an overview of the financials for the fourth quarter and the Full Year FY 2015, followed by operational highlights across key verticals and geographies. After that, I will hand over the call to our CFO – Mr. Srinivas Palakodeti to discuss the financial performance in detail; we will then open up the call for an interactive Q&A session.

Our revenue for the year increased by about 12.1% to Rs. 28,076 million compared to FY2014. This growth was primarily driven by increased contribution from the healthcare vertical, which accounted for 35% of our total revenues compared to 28% in the last year. It is encouraging to report that our

other verticals also performed as per our expectations. This growth was broad-based across all geographies except in Canada, which saw strong volume demand but we were unable to service this due to prevailing labor issues and weather challenges in the last quarter. I would like to emphasize that the growth we achieved this year was despite the impact of portfolio rationalization and unfavorable foreign exchange variations. We lost approximately Rs. 24 million in revenues in the process of downsizing some of our unprofitable accounts and because of downsizing of our consumer electronic clients. The gross growth adjusting for the impact of downsizing would have been about Rs. 70 million. If you add Rs. 24 million to the Rs. 45 million, our reported growth number comes to a high-teens number. So it is indeed a very encouraging sales growth for this year.

The EBITDA for the year was Rs. 3,170 million, a decline of 1.5% compared to last year. It was impacted due to lower volumes in Canada, coupled with ongoing ramp up activities across all our various operations. Our EBITDA margins for the year declined by 155 basis points to 11.3% compared to FY2014. Lower utilization on account of unfavorable exchange variations and higher cost pressures due to portfolio rationalization impacted the margins.

The PAT for the year was Rs. 1,650 million, a decline of 2.7% compared to last year. However, the PAT for the year is not comparable to last year as it includes the impact of higher depreciation charge on account of implementation of the new Companies Act. The PAT margin for the year was 5.9%, a decline of 89 basis points compared to the last year.

The reasons for the decline in profitability are as follows:

- The pressures on our Canadian operations which I will elaborate later when I go into Canadian operations in details,
- Some one-time costs which got bunched up in the last quarter,

- To cater to the high growth in Philippines for the first 9-months of the year, we were impacted by ramp up costs of growth in Philippines; the revenues came in only in Q4,
- Foreign exchange volatility leading to drop in other income, and
- The higher depreciation that we talked about due to the new Companies Act implementation.

Moving to the performance of the 4th Quarter, the revenue grew 10.2% year-on-year again driven by the healthcare vertical... we achieved this number despite an impact of the depreciation of the Canadian dollar. EBITDA for the quarter declined 18.7% to Rs. 693 million, this was primarily impacted due to lower volumes in Canada. EBITDA margin for the quarter was at 9.8%. The PAT for the quarter was Rs. 413 million with a margin of 5.8%. PAT benefited from net tax credit of Rs. 103 million due to recognition of deferred tax assets at a foreign subsidiary.

Moving on to the Operational Performance of the key verticals:

Healthcare vertical has been one of the major growth drivers during the year. The share of the healthcare vertical to overall revenue increased significantly to 35% in FY2015 compared to 28% in FY2014. The growth was primarily driven by demand resulting from the healthcare sector reforms in the US. Over the years, HGS has managed to expand the range as well as the complexity of the product offerings. We have successfully expanded our delivery model from the offshore model to include onshore and near-shore delivery from Jamaica. Some of the processes handled by HGS are staffed by experienced SMEs including registered nurses and doctors in addition to regular associates.

The momentum in the healthcare vertical is expected to further increase with the signing of a contract from a healthcare home medical supply and services company under EBOS, and the acquisition of Colibrium, an innovation leader in delivering sales, service and wellness automation for health plans. The acquisition of Colibrium in the US market complements and enhances our

already strong healthcare payer services capabilities. Right now, we are in the process of integration of Colibrium within HGS.

The share of telecom vertical has declined from 32% in FY2014 to around 28% in FY2015. This decline is on account of exit of non-profitable clients which is in line with our portfolio rationalization strategy. Further, the volumes from the telecom clients in Canada, India and to some extent in the UK remained below our expectations. However, the demand from the Indian and Canadian telecom clients is expected to increase in Q1 FY2016 & Q2 FY2016, respectively. Our UK operations declined in this vertical and the volumes are anticipated to pick up during the new financial year.

The contribution from our consumer products vertical has declined from 16% in FY2014 to 14% in FY2015. The volumes from existing consumer electronic clients have continued to remain soft due to the prevailing challenges in the end market. During the year, we added a new client in the consumer electronic vertical which continues to provide a promising outlook for us. We have also added clients in our other consumer sectors such as food & dairy products in UK, a fitness company in the US and an automobile company in the UK.

This year has been an exciting one in terms of various awards and recognitions that we have received. These include recognitions from organizations like IAOP, NASSCOM, World Contact Center Awards, International Business Awards etc. In Q4 FY2015, HGS was chosen as the “UK Employer of the Year” by Smart Training and Recruitment, one of the UK’s leading training providers for apprenticeship and work place learning programs.

In FY2015, HGS made significant progress in being recognized as one of the leading players in the Contact Center Outsourcing space by the analyst and advisor community. We were featured in a number of high profile reports including Gartner, Nelson Hall and Everest that showcase our vertical expertise and extensive capabilities to potential future customers.

I would like to call out our achieving Level 5 in eSCM-SP, a business excellence model run by IT SQC. Very few outsourcing companies have achieved this level globally. These achievements are a testament to our best-in-class operations and give a sense of how the market, both our clients and the industry, perceives us as a company.

Moving to the key geographies that we operate in:

Our US operations continue to perform well in Q4. During the quarter, we added three new clients in the fitness, consumer electronics and consumer durable verticals. A new line of business has been launched for the fitness product line with an initial ramp up of 125 seats while the contract for the consumer electronics client is for 35 seats. Our US operations also experienced significant growth from existing clients across all sectors. During the quarter, we also received an offshoring opportunity from an existing client in the consumer electronics verticals for Spanish call support. This client will be serviced from the Philippines. We anticipate the new client additions along the incremental business from existing clients will enable continued growth momentum of the US operations.

Coming to the Canadian operations, the FY2015 was a year of mixed results. While revenues remain flat on a year-on-year basis, demand from existing clients experienced significant growth. Apart from the “Gold Stevie” Award for the Best Call Center in Operations Excellence, HGS Canada also won numerous operational awards domestically for its Montague and Pembroke locations. Further, the operations received PCA Certification across the entire Canadian enterprise in December 2014. As I mentioned earlier, Q4 performance was impacted on account on prevailing labor markets conditions in Canada coupled with snow storms. Due to these factors, we were unable to cater to the increased volume from our clients. We lost several working days in February and March due to snow storms, which had a severe impact on profitability. We are also seeing labor market shortages in rural Canada where many of our sites are located. That was because of the low cost models that we followed in Canada.

But with increase in growth, we are finding that these rural markets are unable to service the labor requirements that we need for growth. We are therefore consolidating some of these smaller rural centers into larger labor markets in urban Canada. However, this has resulted in a wage rate increase and we would need to therefore find price increase from our clients, which we are working on in Q1 and we expect to hear positive news. To address this challenge, HGS Canada is in the process of expanding its facility in Windsor, Ontario. As of 31st March 2015, around 250 FTEs were in training for servicing clients from this new facility. This facility has 400 seats with the ability to staff around 550 FTEs. The expansion at the Windsor site is expected to drive higher growth for the operation in FY2016.

Looking ahead, we expect the first quarter of FY2016 to remain soft as well because of seasonality from the telecom clients. The performance is expected to turn around from Q2 FY2016. We do anticipate that HGS Canada will fully turn around and report strong revenue growth coupled with improved margins in the second half of the coming year primarily due to very strong pipeline, which is expected to convert in the second half.

Our UK and Europe operations experienced significant expansion in business as well as improvement in profitability. During the quarter, we signed a contract with a new client in the B2B telecom vertical. This takes our client addition in this geography to three during the year; the two other additions were in the consumer and public sector verticals. We completed the consolidation of two London sites into one single site during the quarter. This consolidated site will cater to multilingual services of clients primarily in the government and consumer goods verticals. Driven by the improved demand of services from our customers, the headcount in the UK has grown to 1,090 compared to 896 in Q4 of FY2014. We were recently recognized by the Everest Group as a major contender and a leader in optimizing the customer experience in the PEAK Matrix for Healthcare BPO.

We expect that the revenue and profitability for the operation will continue to grow in FY2016. Our sales pipeline looks strong with some very large strategic deals that we expect to close in the first half of the year itself. Our UK and European operations will continue to focus on further strengthening its positions in key verticals such as government, consumer, and telecom. The operation is also keen to selectively diversify into other verticals such as healthcare.

The Philippines operations continued its robust performance during the year. The growth of the operation was primarily driven by healthcare vertical, which resulted in significant revenue growth. Profitability for the operation also improved due to stabilization of ramp up activity. During the year, we added about 1,900 seats and about 1,500 employees, and all the cost of the ramp up of these 1,500 employees came through in the first three quarters of the year. The revenues are coming through in the last quarter. Our sixth facility in Alabang became operational with 643 seats and is currently supporting a fitness product client and a healthcare client. We have started support for new clients in the medical device and media verticals. Recently, we began servicing an additional line of business from an existing healthcare client.

We are pleased to inform you that HGS Philippines was recognized by its clients in the telecom and BFS verticals for strong operational performance. The demand trend for this operation continues to remain strong and it is expected to continue its strong growth momentum. Apart from the healthcare vertical, we are also experiencing significant opportunities in telecom, media, consumer, and BFS verticals.

Our India International operations continue to perform well with broad-based volume and revenue growth across all verticals. We also received a new line of business in the enterprise segment from an existing telecom client, which is expected to result in increased revenue in the new fiscal year. Meanwhile, our India domestic operations continue to perform in line with our expectations. Volume from telecom clients increased during the 4th quarter. A premium queue for an existing telecom client, which was started around 8-months ago, has

completed ramp up and is performing in line with our expectations. We also won a contract for providing customer support from Bangalore and Mumbai for a leading global FMCG food company for its Indian customers. We already work with them in the UK geography. The Bangalore process has gone live while a team with around 120 seats is expected to start its operations in Mumbai from Q1 FY2016.

We expect volume from telecom clients to remain soft in Q1 FY2016; however, they are anticipated to recover in the second half of the fiscal year.

During the year, HGS MENA was established to tap the opportunities in the Middle East market. We also established a marketing office in Dubai Internet City with the objective of building sales pipeline for the operations. Demand prospects in this region are very encouraging and the operations have started adding new clients.

To summarize, FY2015 was an exciting phase for us and we are pleased with our performance. We believe that the various strategic initiatives taken up along with expansion of facilities will strengthen the foundation of HGS' sustained growth in the long-term. These steps are anticipated to fructify from the second half of FY2016.

I will now hand it over to Pala who will walk us through the financials in detail. Over to you, Pala, and thanks all of you for being with us on the call today.

Srinivas Palakodeti: Thank you, Partha. Good afternoon, everyone and thank you once again for joining our Q4 and FY2015 Earnings Conference Call. Our revenue for the year increased by 12.1% to Rs. 28,076 million. In constant currency terms, our growth for the year was 12.8%, the difference primarily being due to the appreciation of the rupee against the Canadian dollar.

HGS acquired Colibrium on 27th March 2015, so our reported revenues have about 4-days of revenues from the Colibrium acquisition and hence not significant. So the growth rates which we have achieved of 12.8% in constant currency terms and this net growth

is all organic. During the year, while we did gather momentum from volume sales, to some extent we have been impacted by the exchange rate variation of different currencies. The average rate for the US dollar to the rupee was Rs. 61.32 in FY2015 as compared to Rs. 60.76 in FY2014. Average exchange rate for the Filipino Peso to the US dollar changed from PHP 43.71 to PHP 44.43, a depreciation of 1.4%. As compared to the Canadian dollar, the Indian rupee has strengthened 6.5% from Rs. 57.44 to Rs. 53.69.

As Partha mentioned earlier, the healthcare segment has done very well, and as a result, the total revenues which have offshore delivery component has increased to about 39.7%. So we are close to the 40% mark in terms of revenues, which originates from single geography and gets delivered from different geographies.

In FY2015, US accounted for 63% of the total revenue as compared to 59% in the same period last year. Canada which accounted for 22% of the revenues in FY14 accounted for 18% in FY2015. Share of UK and Europe increased from 10% last year to 11% in FY2015. The balance 8% was contributed India-based revenues. Of this, around 6% came from the India CRM business and the remaining 2% came from the HRO business.

This increase in share of healthcare revenues has led to the growth in the healthcare vertical to go up significantly from 28% last year to 35% in the current year. We expect growth in this revenue to continue due to the changes in the Affordable Healthcare as well as the Colibrium acquisition, which we made towards the end of March this year. The contribution of technology & telecom verticals declined from 32% to 28%, this is primarily on account of exit of some non-profitable clients, which was in line with our portfolio rationalization strategy and also volume, especially in markets like Canada, have remained low due to labor shortages. We believe these volumes will pick up in the second half of FY2016. Contribution from the consumer sector declined from 16% to 14%, this is primarily on account of softness in volumes of some the older clients we had. We have added new clients in the consumer electronics vertical and they continue to grow well and have a promising outlook. We also added clients in

other consumer sectors such as food & dairy products, and fitness products. The contribution of other key verticals remained at 8% for BFS, 6% for media and 2% for chemicals & biotech.

Our consolidated EBITDA for the year was Rs. 3,172 million, a decline of 1.5% compared to the same period last year. EBITDA for the year was impacted due to the lower than expected volumes in Canada plus the ramp up operations in Philippines. EBITDA margin for the year was 11.3%, a decline of about 155 basis points over the same period last year.

Employee benefit expenses for the year increased from around 13% to the same period last year to Rs. 19,105 million, this increase is primarily on increase of total headcount across different geographies as a result of the expansion of facilities. Employees related expenses as a percentage of sales remained at 68% of the revenues. Our interest expenses for the year were Rs. 386 million as compared to Rs. 388 million for the same period last year. Other income for the year declined from Rs. 340 million last year to Rs. 201 million in the current year. Due to changes in the Companies Act, the depreciation amount increased by roughly about Rs. 100 million in FY2015 over FY2014. The balance increase in depreciation is on account of CAPEX, which we have incurred for the growth of the business into FY2016 onwards. Coming back to the issue on some of the drivers which drove the margin down, we have incurred a CSR expenditure of about Rs. 22.5 million and in addition, there were certain one-off items leading to a total of roughly about Rs. 5 crore or Rs. 50 million. So even if you just remove the impact of the CSR expenditure, the EBITDA margin would be above the 10% mark, and as we said earlier, the primary driver for the drop in margin has been the impact of labor shortage and bad weather in Canada. This has led to the decline in EBITDA margin for the quarter.

PAT for the quarter was Rs. 413 million with the margin of 5.8% after factoring to account net tax credit of Rs. 103 million due to recognition of change in the deferred tax item.

We are comfortable with our current capital structure. Our total debt as of 31st March was Rs. 6,458 million, an increase of Rs. 161 million over December. During the quarter, HGS deployed around US\$16 million for the Colibrium acquisition, which has led to the reduction in the cash and treasury surplus. Taking this into account, the cash and treasury surplus has declined from Rs. 4,810 million as of December 2014 to Rs. 4,336 million as of 31st March. The cash and treasury surplus include funds of about US\$25 million from our subsidiary, HGS International Mauritius, which have been placed as fixed deposits with Bank of Baroda. Net debt for the year stood at Rs. 2,122 million.

During the year, we have undertaken some corporate restructuring exercises, which resulted in goodwill being adjusted against reserves in surplus. This is in accordance with the AS14 on accounting standards in India of treating amalgamations with pooling of interest. As a result of this, there has been a reduction of Rs. 4,136 million of goodwill, which has been adjusted against the reserves in surplus. Post these adjustments, our net worth at the end of the year stood at s Rs. 10,742 million. We expect that this restructuring will help result in improvement on financial ratios going forward. Based on the current debt, we have a comfortable debt-equity ratio of 0.6x and net debt-to-EBITDA of 0.67x. The return on capital employed after factoring out the cash and treasury surplus, what we call the operating ROCE, stood at 13.3%.

As you would have noticed from published balance sheet, there has been an increase in long-term loans and advances. This is primarily on account of increase in advance tax, MAT credit and capital advances. There has been a decrease in the short term loans and advances.

Our total headcount as of 31st March 2015 was 28,435; of the total headcount 56% are based in India, 21% in Philippines, 9% in US, 10% in Canada and the remaining were in the UK and Europe. Of the total 16,000 employees based in India, around 7,200 were for the India CRM business, around 1,600 for the HRO business, and the balance are for the International business and the corporate

functions. The total number of seats as at 31st March 2015 was 29,745, an increase of 944 seats compared to December 2014.

With this, I would like to stop and throw the Q&A Session open. Thank you very much.

Moderator: Thank you. We will now begin the question and answer-session. The first question is from the line of Karan Taurani from Religare Securities. Please go ahead.

Karan Taurani: I wanted to know what is this one-off of Rs.50 million incurred this quarter?

Srinivas Palakodeti: As per the new Companies Act, companies are expected to spend around 2% of India PBT towards CSR expenditure and that was about Rs. 2.2 crore. Since the spend happened on 31st March, it came into the Q4 earnings, the balance was related to some exit costs of certain people. So these are the two broad expenditures.

Karan Taurani: So you got about Rs. 5 crore of one-off exit cost and Rs. 2.5 crore of CSR cost, right?

Srinivas Palakodeti: Rs. 5 crore includes the CSR cost.

Karan Taurani: Secondly, coming to the Colibrium acquisition, what is the growth profile for the next year and the margin profile?

Srinivas Palakodeti: Earlier, they had an accounting period of January to December, so they had revenues of about \$12.5 million for the period January to December 2014... and they were about half the size two years back. As part of our overall healthcare strategy, we are expecting good growth from the Colibrium business.

Karan Taurani: It will be margin accretive as well?

Srinivas Palakodeti: Yes, absolutely.

Karan Taurani: Coming to your margins right now, given this one-time impact, your margins would be above 10% EBITDA, but what are the levers for going ahead coming to levels of 11.5-12% odd for the next year, levers for improvement basically if you can give some?

Srinivas Palakodeti: One is we have added capacity in Philippines and for a bulk of the year, we were running cost for which the revenues would come in subsequently. So that situation has happened. So in Q4, we have seen improvement in Philippines margins as the revenues are now catching up with the cost and so we expect this to play out completely in FY2016. The other key aspect is in Canada. As we said earlier, we have been facing a situation where there were volumes on the table but we were not in a position to handle the volumes because we were operating in centers, which did not have adequate people to staff and take the calls. We have started a new center at a place called Windsor in the Ontario Province in Canada and that center is already up and running...this center is up right from the beginning of the year. So as the center ramps up and operates at full capacity, which we expect by about June-July, we would get benefits of that as we go into the remaining three quarters of FY2016, plus what we are doing is also to consolidate some of the smaller centers where we have labor shortage into the Windsor site, which again we expect to add to the margin improvement.

Karan Taurani: So you would not see any pressures in terms of the Canada labor going ahead, it is all done with this quarter?

Srinivas Palakodeti: We have addressed it by opening a new center which means we are able to absorb volumes or pick up revenues, which we were leaving on the table. And as Partha mentioned, since this labor rate increases have happened across different provinces of Canada, we are also in negotiation with the clients for a change in commercial.

Karan Taurani: So you mean to say the sharp dip of 26% Q-o-Q revenue in the Canada region came only because of these two reasons – the labor and the weather. Apart from this, was there any ramp-down or some softness you saw?

Srinivas Palakodeti: It is primarily because of lack of labor or bad weather, and sometimes that also triggers SLA related penalty which is sort of netted off against the revenue. So as we add more seats to absorb the volumes, we expect overall improvement in the performance. But to answer your question, apart from the Rs. 50 million or Rs.5 crore I mentioned earlier, the drop in EBITDA if you compare to Q3 is primarily coming out of the factors related to Canada.

Moderator: Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: Can you please give me the seat-fill factor at the end of this quarter?

Srinivas Palakodeti: As I said earlier, we have about 29,745 seats of total as a whole, and this includes seats we have added in Philippines, which are running at the near optimum capacity. It is only Canada where we have empty seats because of labor shortage. So that is one place where we are operating below optimum level from a seat-fill factor. And the other thing is that there are empty seats in India because primarily on the India domestic side, where we have decided and we have chosen not to fill up the seats unless the pricing is correct. So it would vary from geography-to-geography. Canada would show highest in terms of empty seats for the reasons explained, whereas others are a near optimal capacity.

Princy Bhansali: Is the Colibrium payout already accounted for in the CAPEX?

Srinivas Palakodeti: Colibrium acquisition happened as of 27th March. So to that extent, there was some CAPEX that would add to the overall gross block and net block of assets.

Princy Bhansali: Actually the CAPEX for the year seems to be very high. So can I get the reason for that?

Srinivas Palakodeti: The reason for the increase in CAPEX compared to last year is because of the centers where we have invested for growth - primarily in Philippines, some in India and also the Windsor site, which went live in February 2015. There was demand for Philippines. We have added capacity there and we incurred the cost

associated to the ramp-up, as a result of this, the margins had also come down in the earlier part of the year which we had explained.

Princy Bhansali: What is the expected CAPEX for the next year?

Srinivas Palakodeti: It is a function of what our clients want to do and in terms of the ramp up which is expected, but we would definitely think since we have done capacity additions this year, it should be lower than what we have incurred in FY2015.

Princy Bhansali: On the margin side, can you please give some outlook on the Q1 as well as FY2016 margins?

Srinivas Palakodeti: We do not give guidance, but what we definitely expect is margins to improve in FY2016 over FY2015, because a lot of pain-points which were there have been addressed. So that would be the driver for improvement in margin in FY2016. For Q1, as I said earlier, we are still completing the ramp-ups in Canada in Q1 primarily. So what we expect is it will be higher than what we ended in Q4 with.

Princy Bhansali: What is the tax rate guidance for FY2016?

Srinivas Palakodeti: This year, we have had some reversals on tax, primarily on the change in the deferred tax line - either an increase in asset or a reduction in liability. But on a steady state basis, we expect tax rates to be in the 28-29% on an overall basis.

Princy Bhansali: On the Canadian telecom clients' side, should we start looking at some growth coming in or do we expect it to be muted for the next year?

Srinivas Palakodeti: We are definitely looking at growth, as I said, because we have the new site available to cater to volumes coming from the existing client and we also expect to add new clients, as Partha mentioned earlier, keeping in view the sales pipeline.

Partha DeSarkar: Let me add to that, what we are seeing is also an encouraging pipeline from Canada for offshore Philippines. So some of the growth in Canada clients may appear in our offshore centers in Philippines, as a result of which the revenue

growth may not necessarily show up in the Canada books because offshore revenues are at half the onshore revenue rates, right. We may also see some of our existing clients who are there onshore move additional business offshore. So that may also lead to certain amount of decline of onshore revenues in Canada. On an overall basis, Canada is expected to grow, but it will not be as spectacular as the year before where it grew from 72 million to 98 million in just one year.

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

Amitabh: Just bit of a disappointing quarter. I was wondering where have we gone wrong? I have seen your presentation and heard your comments, but last year this time we were quite optimistic about our margins, etc., for the year that has gone by, but we seem to always sort of go through these blips every few quarters. So I somehow fail to appreciate in some sense; Investors are tired of hearing the jargon about ramp-ups... some region always seems to be having some issues which drags down our overall margins. So this March quarter which is traditionally supposed to be our strongest has turned out to be one of the weakest in terms of margins. I understand that the Canada was primarily responsible for it but some more explanation or more realistic guidance for sustainability of margins going forward would be useful to have?

Partha DeSarkar: I appreciate the feedback and I have to say that it has also taken us by surprise. The Canada situation was not something that we saw coming. So if we can leave out one-time things like severe weather, which obviously nobody can predict. So leave that out, but it has actually accounted for 20-working days in one quarter where people were not able to come to us because of severe snowstorms. So that is something obviously we did not see coming. The labor shortage also struck us because when we acquired the Canadian company, it had a rural delivery model, which was a low cost model which helped us manage its profitability in the past. As we kept growing the business, we realized that the rural delivery model can only sustain a certain amount of growth and we were growing faster than that. If you go back to the numbers last year, Canada grew in one year from 72 million

to 98 million... that was just in one year. And that growth kind of sucked up all the labor that we had in these rural markets where we are operating. So, today we have to change our delivery model by moving back to urban centers, which can support a higher growth rate that we are setting ourselves for. Now the urban model is a little bit more high cost than the rural markets, because the wage rates are higher, and therefore we are talking to our clients to see if we can get better rates, and we are optimistic that we can get better rates from our clients. Now, let me come back to your comment about... there is always some explanation or the other of why margins are not sustainable. I think you are comparing this year with one of the best years in the history of the company which was last year, and I think everything went right last year. So that is why the numbers were so spectacular last year. If you look at it, I am pretty happy with the growth; the growth has been fabulous this year. What we did not see was the downturn that we saw in Canada, we did not see it coming. There was no reason for us to anticipate that we will run into labor shortage issues and wage rate issues in Canada. But, we have been through that in UK the year before and we have come out of that. UK this year has shown stellar growth of almost 20%. So business will go through some of these cycles. I wish everything was as predictable, but unfortunately reality is not. The Philippines ramp up is again a good story.

Amitabh:

What is our aspirational margin, because at the same time last year we were expecting to improve margins further this year from 12.9% because historically we have seen peak margins of 14 to 15%, and mid-teens were something that you were hopeful of achieving and we saw a sharp dip in this year? Even if we look at the last five years, we are basically sacrificing margins it seems while achieving growth at the expense of profitability and margins.

Partha DeSarkar:

Philippines grew by about 1,500 people. The cost of growing by 1,500 people in one year has come in and is reflected in the margins. So if there is an option of not growing and improving margins, I think that will probably not be a wise thing to do, because it is an offshore business, and therefore there is a cycle through which the offshore business will grow, which is train more people and then earn revenues. So all that growth in Philippines has resulted in depressed

margins in the first three quarters, but in the fourth quarter, it has shown fabulous results, and most of that momentum will carry forward this year. So yes, growth will not come without any cost but I do not think I agree with your comment saying that we seem to be sacrificing profits for growth, there is a cost of growth, which is reflected in the numbers, and that is an albeit. What is unpredictable this time was what happened in Canada, which we did not see coming.

Amitabh:

Going back to the larger question would be when do we achieve steady state... of course, we are a growing company but even growth businesses at some point achieve some maturity or some free cash generation. It has been like 8-years since we got listed as a separate company and we sort of seem to have gone nowhere in terms of shareholder valuation, you are listed in the market cap which was higher than what you are at today and 8-years since listing, dividend payout ratios have declined, absolute dividends have stagnated for the last 4-years, the company has not declared any bonuses, splits, buybacks and the return ratios have also remained stagnant or have declined. So the larger question is that one of the objectives also for any listed company is shareholder value creation and I understand that you have to create in value for all stakeholders but minority shareholders should be a part of that. So I am just wondering what is the thought process on part of the board or the management on that front because that is one area even though we have strived to create value in that area, but the metrics do not indicate that we have much there.

Partha DeSarkar:

I do not think I can dispute those numbers, so that is a discussion that will keep happening with the board, but yes, I have to say that the board has not yet moved in those directions.

Amitabh:

So I would urge the board to sort of take some feedback or some of those investor concerns into consideration and hopefully create the value that the shareholders deserve and commensurate with the growth that the company has achieved. Somewhere down the line, the shareholders should also benefit and it is a fairly long time on that. So if that can be conveyed to the board I would really appreciate that.

Partha DeSarkar: It will be done.

Moderator: Thank you. Our next question is from the line of Umang Kajaria from Apax Partners, please go ahead.

Umang Kajaria: Just wanted to understand the CAPEX for this year a little bit more in detail. So you spend about Rs. 213 crore in CAPEX, primarily driven by new seat additions. But if you help me better understand what was the utilization last year and with the new seats what is the current utilization and how much of growth you are factoring in for next year based on this CAPEX spend?

Srinivas Palakodeti: There has been increase in CAPEX compared to last year, so last year there was also a certain component which related to the acquisition of some building in the UK, so net of that, the CAPEX would have been about Rs. 110 crore. So because of the seats which we added in Philippines, some in India and whatever we incurred in the last quarter for the winter expansion, the CAPEX for the year came in at about Rs. 213 crore. So going forward for the current FY2016, we definitely expect the CAPEX to be lower than where we are in FY2015. The only rider is sometimes clients do ask us based on how we win business. If business comes in, the wins happen in the last quarter or towards the end of the financial year, you would incur some CAPEX for revenues which would come in for rest of FY2017. But on a broad level, our expectation is CAPEX for FY2016 would be lower than what we had in FY2015.

Umang Kajaria: From a seat utilization perspective, what is the exit run rate for FY2015 and what was the average last year, just trying to understand how many more seats have been added and what kind of growth are you factoring in for the CAPEX that has been spent?

Srinivas Palakodeti: If I look at Philippines alone, they added close to about 1,800 or 1,900 seats during the year. We typically add seats close to when we have actually won the contract. We have the ability to take an empty shell building and fit it out within three months. So we do not build seats and then look for business. We typically start building seats when we have the contracts in hand or very-very clear

visibility that these revenues would come in. So, if I look at from Philippines... what we have mentioned in the earlier calls, a couple of centers to open up between May and June, and with that we would think at what the business pipeline we have, we would be operating at optimal capacity. In other capacities, Canada, you would see empty seats, but as we mentioned, that is not representative, because there are places where there is a labor shortage, and as I mentioned earlier, we want to consolidate some of the centers, some of those empty seats would effectively disappear. The third is India where we have some empty seats, but something which we want to keep empty till we get business at the price points we want.

Umang Kajaria: In Q1 of this year, the CAPEX was about Rs. 27 crore and I think the guidance was that it would be similar to the rest of the year, so about Rs. 110 crore or so of CAPEX for the full year. So what has changed between the view from Q1 where the CAPEX was about Rs. 110 crore expected for the year to Rs. 213 crore which has actually been spent?

Partha DeSarkar: I think we have been giving CAPEX numbers as we move through the year. We were close to that Rs. 100 crore-mark half way through the year itself. I can cross check what we have said, but I do not think there is any significant change from what we have said earlier.

Umang Kajaria: Just from a cash generation perspective, I guess this year, there was a net cash use through the year. What is your outlook going forward for next year in terms of the cash generation?

Srinivas Palakodeti: If I look at my cash from operations... that is I am talking before CAPEX, though the drop in margins has been about 160 or 170 basis points, at an overall level, the cash flow from operations has declined by about Rs. 235 crore to about Rs. 212 crore, so that is about Rs. 22 crore less than what we generated from operations last year. So as I said, we expect margins to improve as we go into FY2016, and also CAPEX we expect would be lower than what we had in FY2015. So with that I think we should have more improvement in margins on a

higher turnover, we expect improvement in cash flow from operations as well as reduced CAPEX.

Umang Kajaria: On the health insurance business, that business continued to grow pretty well through this year. What is the outlook on that business next year – is there a certain amount of growth that is already being ramping up that gives you visibility for growth into that business for next year?

Partha DeSarkar: Yes that business is expected to grow well; the EBOS business is working on a fairly large deal, which we expect to consummate through the year, and it will result in filling up of capacities in Philippines, and we are also opening up a new center in Hyderabad. We have also acquired Colibrium towards the fag end of last year. Colibrium is a platform-based business, so we do expect that business also to do very well, but that business will kind of kick in the second half of the year. But that business will also provide what we have been looking for some time, which is non-linear growth, which is basically growth that happens because of platforms which does not require incremental investments. So those are the two things that we believe will make a big change. In addition to that, all our existing clients are growing with us; in fact there is a lot of interest in Jamaica, which is near shore for Americas for our healthcare clients. So even Jamaica will grow well this year.

Moderator: Thank you. Our next question is from the line of Naresh Kumar from Money Curves, please go ahead.

Naresh Kumar: In the last concall in Q3, there was some discussion on margins... and I appreciate I think the discussions happened, but specifically there was a query that on margins and the kind of guidance of statement, was that margins will be good in Q4 and Q1 because of investments made in Philippines, etc., so this lower margin due to weather and other problems we had. Did it transpire after the concall which happened or was it through the quarter?

Partha DeSarkar: No, I told you, that we lost about 20 man days in February and March after the call, so this was completely unexpected, people were just not able to come to work, we did not see that coming at all.

Naresh Kumar: So that is obviously post the concall and that is addressed is what I understand I think ...

Partha DeSarkar: The weather has moved on, this is now summer. The thing that we are grappling with right now is that we have grown so fast, we did not see the labor shortage come in, and Canada as you know is a very vast country. But if you look at population density, the population density is fairly low... our delivery model was a low cost rural Canada delivery model, which stood us in good stead when we were a smaller company; rural Canada was able to supply the work force that we needed to grow. One year of explosive growth kind of tapped out that work force completely, and we are now having a situation where we have work, volumes are available, our clients are ready to give us business, but we are not able to fill the seats because we have centers where work force is just not available. We have opened up at Windsor, that is filling up fast, and that will help us, but it is a slightly higher cost than what the rural model allowed us to, and therefore, we are going back to our clients to say that "Hey, we need a price increase to be able to counter these wage cost increases." We are reasonably positive on that.

Moderator: Thank you. Our next question is from the line of Ravi Menon from Elara Securities, please go ahead.

Ravi Menon: A couple of clarifications on the Canadian operations: One, is it still mostly telecom revenues?

Partha DeSarkar: It is primarily telecom, we do have one financial services client, but that financial services client is also starting to move work to our Philippines location. So as a percentage of revenues, because offshore rates are half of onshore rates, so purely if you were to look at onshore revenues, you will find telecom concentration will go up.

Ravi Menon: Second is I had assumed that the call centers that you have, the rural distributed model, those are still operational and those seats are still filled, because you are not moving those employees to a new center and shutting them down?

Partha DeSarkar: We are consolidating two of them.

Moderator: Thank you. Our next question is from the line of Karan Taurani from Religare Securities, please go ahead.

Karan Taurani: Wanted to know about the confidence you have in terms of getting this price increase in the urban kind of markets. Have you had interactions with the clients?

Partha DeSarkar: Yeah, we have had interactions, they are aware of our situation and we have had sympathetic hearings from them. So we are hopeful that we will get something from them.

Moderator: Thank you. Our next question is from the line of Aman Chauhan from Reliance Capital. Please go ahead.

Aman Chauhan: Is it possible to quantify the impact of this 20-working days loss we had in Feb and March because I believe that amount will not reoccur in the first quarter?

Srinivas Palakodeti: I do not have directly off hand the loss of working days, because there are other related issues in terms of how it has impacted the profitability, but our broad estimate is for the shifts which happened in the Canada market plus the impact of bad weather, we lost about Rs. 15 crore on account of that. That is a broad I would like to share.

Aman Chauhan: So let us split the Canada operations on two-parts – one is labor shortage means there are challenges to growth, fourth quarter we saw a sequential decline in revenue, so I presume it is predominantly because of the 20-man days which we lost because we still have people unless we had a very high attrition in Canada. So is it fair to assume that since this 20-days loss will not reoccur in the first quarter, bulk of this Rs. 15 crore will be recouped in the first quarter?

Srinivas Palakodeti: Aman, between December 2014 and December 2015, at an overall level, the revenues would show a drop of about 3.6%, it has actually been volume growth as well... 2.6% was due to exchange rate variation, the impact of volume growth is small, a lot of it has happened because of the way the Canadian dollar has depreciated against the rupee.

Aman Chauhan: So this Canadian dollar depreciation impact also. And I believe since March, April till date there have been some recoupment in the dollar. If that continues we will be able to recoup some of the losses?

Srinivas Palakodeti: Yes, our focus is really on the loss of revenues and margin improvement but just to give you a sense, if the one Canadian dollar was Rs. 54.5 as of December... that came down to about Rs. 49.33 as of March. There has been some pick up since then but it was pretty steep during this quarter.

Aman Chauhan: On Philippines, we were expecting that we have a decently better margin business where we were training nurses for high end healthcare operations and this quarter we have seen some growth there. What is the future outlook for the Philippines market – do you see the ramp up to continue and the margins there to continue to improve in the current year?

Partha DeSarkar: We had ramp up cost pressures for the first three quarters, most of those ramp ups are over, and therefore those revenues are going to come in, has come in Q4 and therefore the margins have improved. And that momentum will continue even this year. We have additional ramp up coming in, which is again growth for the Philippines operations and that again will result in a strong momentum for Philippines. So Philippines, we are very optimistic about where we stand.

Aman Chauhan: So broadly except for Canada, all other geographies we are positive on the volume as well as the margins outlook for the current year?

Partha DeSarkar: We are very positive about all other geographies other than Canada. Canada has just taken us completely by surprise, because it is not just one thing. When you have to change from a rural delivery to an urban delivery model that is

fundamentally changing the way you are doing the business, we did not see it coming. I think we should have seen it because we grew so fast in the last year, but that has been a mistake.

Aman Chauhan: We are expecting rate hikes in Canada to compensate for the shift of delivery model. In case these hikes do not come in, will we lose business, will we have to pay an exit penalty or we can just move on and say that unless I get this price, I would not ramp up?

Partha DeSarkar: That is like a perfect storm, everything that worse that can happen, can happen, we do not expect that the outcome will be that severe. But yes, I am not aware of any exit penalties, it is a new question, so that is why I do not have the ready answer. But yes, we have an option of not to take the business if it does not come in at the price point that we want.

Aman Chauhan: If we do not take the business, all we lose is growth, but we will not be sacrificing with the current business, current business stays as it is, we might not grow because we might not take additional business, the balance business continues as it is?

Partha DeSarkar: Continues as it is, but at a lower margin, so therefore we will have to figure out what to do to improve the margin of our existing business.

Moderator: Thank you. Our next question is from the line of Naitik Mody from OHM Group, please go ahead.

Naitik Mody: Could you please give us a sense of your margin profile which you think is sustainable over a period of next 3years?

Partha DeSarkar: Our endeavor is to improve the margins to a level where we are operating in the mid-teens, that has been our endeavor. We came close last year, because it was a perfect year in many ways, we have also done some balance sheet restructuring to improve the ROC. So if you see that despite the fact that our margins at an EBITDA level looks depressed, our ROC has actually improved from previous

year. So I would not be able to give you guidance for three years, but let me tell you our aspirational goal for profitability is in the mid-teens.

Moderator: Thank you. Our next question is from the line of Sarthak Sehgal from Crisil, please go ahead.

Sarthak Sehgal: Two questions: First of all, on the adjustment of goodwill, is this a kind of a write-down or is there some change in the accounting practice? Second, I think in the last call we had some discussion on the consumer electronics volume which were expected to pick up from the Chinese clients. So any update on that?

Srinivas Palakodeti: If your question is, has there been any goodwill impairment in any of the geographies, the answer is 'no', because then it would have shown up in your profit & loss account. So what has happened is, there has been some restructuring and we have adopted the pooling of interest method as per AS14 accounting standard dealing with amalgamation, where it basically says, it does not say goodwill, but basically investment minus the net equity value, which in a sense would be goodwill, needs to be adjusted against your retained earnings. So that is what we have done.

Partha DeSarkar: We have grown with our Chinese electronics clients, but it has not obviously been as quick as to replace the volume that we have from the Japanese guys. So I mentioned at the beginning of the call, that if you look at the downsizing that we have done; one is to exit from one particular relationship which was pretty bad; and two, the downsizing that has happened because of our reduced business from our Japanese consumer electronics clients. The net impact of that is loss of revenues to the extent of \$24 million in one year. So not only have we replaced those \$24 million of revenue that we lost in one year, we have added on top of that about \$45 million of revenue. So if you look at it, net growth is showing us at \$45 million but our gross growth is about \$70 million. And it has not all come from consumer electronics, which as a percentage of revenue has shrunk from 16% to 14%. We do expect the Chinese to do well, but it will take some time.

Sarthak Sehgal: One follow-up question on the goodwill. Basically, when we say that we can now look for a better return ratio, so there is no as such a business stay in which would lead to an improvement in the ratio, just the adjustment in the goodwill would be the main factor for that?

Srinivas Palakodeti: No, there are two different metrics right; as we said we expect improvement in the margins, so that is margin, whichever at operating profit or EBITDA level as a percentage of revenues, so we said we expect that to improve. On top of that, if you are looking at ratios like return on capital employed... and this is a question several people with whom we have spoken, they said, "Look, your balance sheet looks bloated, it is depressing your ratios." So this is something that would result in improvement of those ratios, but we are not saying that one is a substitute for the other.

Partha DeSarkar: The idea is to improve the numerator and reduce the denominator, which is what we have done.

Sarthak Sehgal: I get that but I was just trying to understand is if there is an improvement in numerator or the reduction in denominator is due to a specific business reason or just an accounting

Partha DeSarkar: The denominator is an accounting treatment; the numerator as I said, yes, we should have done a little better, we were expecting to do better, hopefully, this year we will see an improvement in the numerator.

Moderator: As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Partha for his closing comments. Over to you, sir.

Partha DeSarkar: Thank you very much for taking interest in our company and taking the time to listen to us. We will expect to hear from you again when we meet up for our Q1 Earnings Call sometime in the middle of August. Once again thank you very much.

Srinivas Palakodeti: Thank you, everyone.

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

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Note: This transcript has been edited to improve readability

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