



“Hinduja Global Solutions Limited Q4 FY2017 & Full year FY2017 Post Results Conference Call”

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Hinduja Global Solutions Limited Q4 FY2017 and Full Year FY2017 Post Results Conference Call. As a reminder for the duration of this conference call, 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 * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R. Ravi, Head - Investor Relations at Hinduja Global Solutions. Thank you and over to you sir.

R. Ravi: Thank you, Ali. Thank you ladies and gentlemen. I, R. Ravi, Head of Investor Relations at Hinduja Global Solutions wish you all a very good evening and a warm welcome to the fourth quarter FY2017 and the full year FY2017 post results conference call. To discuss the quarterly and the full year results, I am joined by Mr. Partha DeSarkar and Mr. Srinivas Palakodeti.

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

. For a list of such considerations, please refer to our earnings presentation Page #2. Now I would like to invite Mr. Partha DeSarkar to provide his perspective on the performance for this quarter and the year under review. Over to you, Partha.

Partha DeSarkar: Thank you, Ravi. Good afternoon everyone and thank you for joining us on the call today to discuss our Fourth Quarter and Full-Year FY2017 financials and business performance. We hope that you have had an opportunity to review our presentation and the reported financials, which are available under the investor sections on our website.

As always, I would like to start with an overview of the financials for the quarter and for the full year followed by operational highlights. After that, I

will hand over the call to our CFO – Mr. Srinivas Palakodeti to discuss the financial performance in detail. We will then open up the call for the Q&A session.

In the last Quarter's Conference Call, we had said that the second-half of the financial year would be better in comparison to the first half. We had also guided that Q4 FY2017 would be softer than quarter 3 in revenue growth. Despite currency headwinds, I am delighted to share that we reported a 4.5% growth in H2 revenues over H1. The EBITDA margins from operations continue to expand for the second consecutive quarter. In quarter 3, EBITDA margins expanded by 140 basis points to 12% and in quarter 4, it expanded further by another 130 basis points to 13.3%. These EBITDA percentages are different from the way they have been reported in the publication pages... this is because of the changes made by SEBI in the financial reporting norms that have been introduced in Q4. Pala will take you through details of this reconciliation later on during his presentation. Overall, EBITDA for H2 grew by 17.9% over H1, while the EBITDA margins for H2 are up by 140 basis points over H1 to 12.6%.

For the past one year, we have been communicating to all stakeholders that our focus is to grow profitable revenues, free cash flows and return ratios. I would like to reiterate that our focus to improve operational efficiencies is showing. EBITDA margins over the last 7 quarters have expanded close to 600 basis points from 7.4% in quarter one FY2016 to 13.3% in Q4 2017. We reported the highest quarterly EBITDA in Q4 2017.

Looking at the numbers from all 4 quarters, I would say that FY2017 has been a turnaround year for us. We have sustained momentum in both topline and margins quarter-on-quarter which is great news. That we have achieved all of this despite all that is happening in the industry and globally is a reiteration of the fact that our strategy is on the right track.

Getting to specifics on the numbers:

In the just concluded financial year, we delivered full year revenue growth of 11.5% year-on-year at Rs. 3,711 crores. This 11.5% year-on-year growth for

FY2017 was aided by an organic growth of 9.1%, inorganic growth of 2.1% and an FX impact of 0.3%. The strong performance was led by volume growth from our top 10 clients and new logos that we have won in the last year in verticals like healthcare and consumer products. We have also improved our seat utilization in some of the lower utilized delivery centers.

Our biggest vertical, healthcare continues to grow at a healthy rate and we do not see any major hiccups to the growth in the coming year as well. Our endeavor to rebalance our revenues, onshore versus offshore/ near-shore has gone on very well. Offshore/ near-shore revenues accounted for 47% in FY2017, up from 43% in FY2016. Better operational efficiencies, cost optimization, closure of non-viable centers and the effect of price revisions effected in the last fiscal for some of our clients enabled us to improve EBITDA margins by 250 basis points in FY2017 over FY2016. This has resulted in a year-on-year EBITDA growth of 41% and a net profit growth of 77%. Added to all of this, our cash flows have enabled us to repay debt of close to Rs. 200 crores and our net debt by equity at the end of FY17 is at 0.15x as against 0.33x in FY16.

Moving beyond the financial numbers, some business highlights:

During the year, we signed 15 new clients, who accounted for 2.7% of overall revenues. The total number of active clients today stands at 183 BPM clients and 614 payroll processing & HRO clients. Currently HGS has 68 global delivery centers across seven countries. In FY2017, HGS opened seven new centers, two in Jamaica, one in Philippines and four in India, one each in Chennai and Raipur, and two in Bangalore. Employee headcount stood at 44,237 as of 31st of March 2017, with India continuing to account for the majority of the workforce at 67%.

Now coming to the fourth quarter in FY2017 in specific:

We reported a 2.9% year-on-year growth in revenue. Organic revenue growth was healthy at 5.4%. But there was an adverse FOREX impact of 2.5% which hit the Q4 revenue growth numbers. On a sequential quarter basis, the 1.7% decline in quarter 4 revenues was on account of the FOREX impact of 1.8%.

Moving to the markets we serve and delivery locations:

North America: We continue to win new businesses from existing and new clients in North America, which comprises Canada and the US. The US operations had good wins in Healthcare and Automobiles while the Canada unit expanded business in Telecom and Media verticals. The ramp-ups helped improve overall seat utilization. There is, however, scope for more improvement in the utilization of seats in some of our centers. HGS has closed its Waterloo site in the US in March 2017. As mentioned in previous calls, the site was closed in view of the changing needs of the clients from this location. Incidentally, we have restarted delivery work from our Charlottetown center in Canada, which will now support recently-won telecom and media client. On top of that, we have also expanded our home agent footprint in Canada, which is the new technology that we have deployed to overcome labor shortages that we have faced in Canada in the past.

Jamaica is proving to be a very good near-shore location for us, primarily due to its proximity to the US and available talent pool. We have doubled our revenues in quarter 4 FY2017, led by significant ramp-ups from some of our healthcare clients. As of 31st of March 2017, HGS Jamaica had a headcount of 1,900 people, an increase of 400 people in just one quarter. We have added our fourth center in Kingston in January 2017. This is a 64,000 square feet facility and has a capacity to accommodate 1,200 associates. Jamaica also received the ISO 9001 certification for Q4, only the second BPM company in that country to achieve this.

Moving to UK: The revenues reported in Q4 2017 in GBP terms was stable; however, we are still a few quarters away for a full turn around. We expect this to happen towards the end of this fiscal. In Q1 FY2018, we expect to begin the seasonal ramp up for a key government client.

Coming to India operations now:

The India international business experienced moderate growth led by volumes from healthcare vertical. In addition, the EBOS business did very well in quarter 4. The outlook for the Indian international business looks good as we

expect a strong growth in FY2018 led by our usual healthcare clients. India domestic business had a stellar year last year driven by verticals like telecom and commerce. We opened a new center in Raipur in end March 2017. In FY2018, we are looking to expand our domestic operations by setting up a new center in Indore and consolidating our existing operations from two small centers in Durgapur to a new and bigger facility in the city. We are also looking at opening up a center in Kolkata. However, we may face some headwinds in the domestic business because of the current situation in the telecom sector, which is our biggest sector for the India domestic business.

Moving on to Philippines:

Philippines continued its business expansion and growth, reporting a year-on-year growth of 10% and a sequential growth of 3.3% in quarter 4. Healthcare vertical was the primary driver of growth while we also renewed a contract with the financial services clients. In terms of outlook for the new fiscal, Philippines is likely to witness strong growth in revenues from clients in both healthcare and BFSI verticals.

Going back to the business in general, you clearly realize that this year has been a turnaround year for us. But it is not restricted to just numbers; this has been a period where we have also focused on driving non linearity in our businesses, be it through ramping our innovation team, focusing on technology led solutions or beefing up the platform BPO lever at Colibrium.

In FY2016, we launched three big solution areas: HGS RPA (Robotics Process Automation), DigiCX and Analytics. In FY2017, we made impressive progress across all three.

You are aware that automation is fast emerging as a key lever to create transformation in a BPM setup. RPA adoption in BPA is growing at a CAGR of over 100% and it is likely to impact 30%-40% of BPM spend in the long run, according the Everest Group. Artificial Intelligence-led RPA in fact is expected to help BPM penetrate into the core areas of business processes. This will mean reimagining our partnership models and getting into advanced partnership models like gain-share and transformational models.

Under the HGS RPA business, we have set up an automation center of excellence, which now is supporting eight client engagements in healthcare and BFSI. This center of excellence is helping provide value addition to clients through RPA, artificial intelligence and analytics to drive cost takeout and higher customer experience transformation. The work typically involves automating several large processes such as claims and contract transactions, data verification which are routine, the chat BOTS and virtual agents etc. We plan to scale up significantly this year both in capability and deployment.

Under the DigiCX suite of solutions, HGS has launched nine new service offerings such as DigiWEB, DigiSOCIAL, DigiINSIGHT, DigiBOT, DigiAMBASSADOR and the Automated Enterprise. DigiCX was recognized by Frost and Sullivan in the category of new product innovation. You will see more details of our new services offerings on our website. In Analytics, apart from using speech analytics tools and analysis of text for several clients, we started supporting clients in the healthcare vertical with predictive and prescriptive analytics. We expect to increase our presence in this space from this year onwards.

Looking ahead, we are focusing on enhancing our portfolio further by investing in technology services and skilling people. The traction for these three solution areas, and the use of automation and analytics internally within HGS, is expected to add non linearity as well as help expand margins, which of course cannot be quantified right now. We have spent about \$15 million in the last three years to build this capability in-house.

In conclusion:

The quarter 4 and full year FY2017 results were in line with our expectations and to what we have guided. Apart from significant gains derived from operational efficiency, the main driver for this improvement has been volumes, especially from the top 10 clients. We are exiting FY2017 with an annual revenue of \$555 million.

In terms of outlook, we are encouraged by the start we have seen in the new fiscal. The pipeline looks good with several ramp-ups planned. However, if

currency fluctuations persist and the rupee strengthens, quarter 1 FY2018 margins could be slightly softer. Another factor could be the sharp increase in minimum wages in some states in India, which could impact our domestic profitability.

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

Srinivas Palakodeti: Thank you, Partha. Good afternoon to everyone on the call and thank you for joining on our Q4 FY2017 earnings call. Let me start by clarifying the way the results have been presented.

On July 05, 2016, SEBI came out with a circular stating that the format, which was being used for announcing results by listed companies, should be followed till the results of the quarter ended December '16 came out. For results for the quarter and year ended 31st March 2017, the results should be as per Schedule III of Companies Act 2013. As per Schedule III of Companies Act, if a company has FX gains, that should be added to other income and if there are FX losses, those should be added to the other expenses. So our results, which have been published yesterday, are as per Schedule III of Companies Act and in compliance with SEBI guidelines. We have disclosed in the notes to the consolidated results, the FX losses, which are part of the other expenses. So if you see Q3, we had an FX loss of about 2.2 crores. So when we came out with the results for Q3, the EBITDA margin was 12% but under the new format, EBITDA margins for Q3 have been reported at around 11.7%.

Given the sharp rupee appreciation in Q4, the FX losses for the quarter come to about Rs 22.67 crores. So if we follow the format what had been used for presenting results as same as that for Q3 and earlier quarters, EBITDA margin would be in the range of 13.3% as opposed to 10.9% in the new format. So I hope that clarifies the way the results have been presented and the apparent drop in margin, given that it has actually been the highest in a quarter for the current financial year i.e., FY2017.

Having said this, I would like to update you with a couple of points on the financial parameters. If we take last 3- 4 quarters, we have witnessed margin

expansion and over the last two quarters, we have expanded the EBITDA margin by 130 basis points in Q3 and another 130 basis points in Q4. In FY2017 quarter-on-quarter, we have reduced gross debt. In the first 9 months, we have repaid debt to the tune of Rs 1,163 million and in Q4, we have repaid debt of Rs 790 million. Thus for FY2017 as a whole, we have seen a total gross debt reduction of Rs 1,953 million and this is all through internal accruals and better cash flow management. End of the year cash and treasury surpluses has seen no big gains as compared to FY2016.

As the result of the repayment, the net debt to equity is now at 0.5 times as against 0.33 in Q4 of FY2016. Similarly, the net debt to EBITDA has come down to 0.45 times as compared to 1.21 at end of Q4 FY2016. I'm happy to share that the free cash flow to EBITDA factor for FY2017 is at 48%.

The growth in revenues has been driven by increase in volumes across the key clients coupled with new client additions in Healthcare, Consumer products and Telecom verticals. Offshore and near-shore revenues accounted for 48% of the total revenue during the quarter, which has steadily improved over the last few quarters.

The average rate of the USD to INR for the quarter was 66.35 as compared to 67.63 in Q4 of FY2016, a change of 1.9%. The average exchange rate for Q4 FY2017 for Philippine Peso to USD changed to 50.02 in the quarter as compared to PHP 47.06 for the same period last year, resulting in a change of about 6.3%. Compared to Q4 of last year, Indian Rupee has been flat against the Canadian Dollar while the INR has appreciated by about 13.6% against the British Pound.

Moving to revenue origination by various geographies, USA accounted for 68% of the total revenues as compared to 66% in the same period last year. The share of Canada originated business dropped from 11% in Q4 of FY2016 to 10% in the current quarter. Business originating from UK declined from 10% in Q4 FY2016 to 7% in the current quarter. This decline is on account of an exit of a European client, which we spoke about earlier in the financial year and depreciation of the GBP against INR post the Brexit announcement in June 2016. The contribution of India originated business increased from 13% in Q4

FY2016 to 15% during Q4 FY2017. This growth was mainly due to the acquired India CRM business, growth in volumes from the ecommerce business along with growth in HRO and payroll business.

In terms of revenue contribution by verticals, healthcare continues to be a major contributor and accounted for 48% of total revenues during the quarter as compared to 43% in Q4 of FY2016. The contribution of telecom and technology vertical declined from 26% in Q4 of FY2016 to 22% in Q4 FY2017 due to higher growth rate from healthcare vertical and some softening of volumes from UK clients. Share of the consumer retail and banking and financial services verticals have made modest progress as a percentage of Q4 revenues as compared to the same period last year. Balance 10% came from other verticals.

During the quarter, we have recorded a highest ever consolidated EBITDA of Rs 1,248 million, representing a 27% growth over the same period last year. EBITDA margins for the quarter were 13.3%, an improvement of 260 basis points. Over the last three quarters, employee expenses to sales have been coming down. Similarly through cost containment and rationalization, other expenses to sales have also been reduced. Our interest expense during the quarter was Rs 97 million as compared to Rs 104 million in the same period last year. As a result of FOREX losses of roughly Rs 2,300 million during Q4 FY2017, other income reported was negative Rs 202. As a result of FOREX losses, profit before tax for the quarter was Rs 581 million, a decline of 5% over the same period last year and 19% over the previous quarter. Along with the improvement in profitability, there has been better working capital management. As a result, cash flows from operations and after factoring working capital changes came in at Rs. 4,031 million for FY2017 and cash outgo towards capital expenditure came in at Rs 1,779 million.

In terms of capital structure, our total debt as of March '17 was Rs 6,555 million, which indicates reduction of Rs 1,953 million compared to 31st March 2016. Our cash and treasury surplus at the end of the quarter was Rs 4,576 million. Our net worth at the end of FY2017 was Rs 13,192 million and based on this, we have a debt equity of 0.15 and net debt to trailing 12 months' EBITDA of about 0.45. The business return on capital employed i.e., return on

capital employed excluding the treasury and cash surplus for the quarter came at 15.6% and for the year, it works out to 17.2%.

At the end of the quarter, we have a total headcount of 44,237. Total of 67% of the total employees are based in India, 16% in Philippines, 9% in US, 5% in Canada and the remaining 3% in UK. Of the total employees in India, 38% are in the India domestic CRM business, 20% are in the India International business and 6% of the employees are in the HRO business. The total number of seats as of 31st March 2017 was 40,960 as compared to 37,072 in March 2016 and 40,002 at the end of December 2016. We have mentioned earlier that we are trying to take an increasing number of seats on OPEX basis as opposed to CAPEX basis. I am happy to share now out of the total seats as of 31st March 2017, 14% of the seats are on OPEX as compared to 10% of the total seats being on OPEX model as at end of June 2016.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First question is on your CAPEX plan. If you could share something for FY2018, what could be the quantum of CAPEX that you will incur?

Srinivas Palakodeti: Mohit, Pala here. So this year we had about Rs 178 crores in CAPEX and we expect CAPEX in the same range for the next financial year. As I mentioned, we have about 14% of our seats on an OPEX model and these estimates on CAPEX could vary if we are able to get OPEX model seats in other geographies. India, we don't see a problem. We would continue to look for such options in other centers as we expand.

Mohit Jain: Okay. So that means our cash flow will be better as well. So like, are we looking to become sort of debt free on a net basis or any increase in dividend for next year?

Srinivas Palakodeti: No. The focus really is to a) better EBITDA to free cash flow conversion and having generated the cash, the focus is really to pay down the debt. But bear in mind, we are also growing and there would also be demands for increase in working capital.

Mohit Jain: Third is on your telecom vertical... what is happening there? Should we expect some growth next year or is this something which is like structurally soft and you will see some pressure in terms of revenue growth?

Partha DeSarkar: Telecom really has to be looked at from different angles. You would have heard about the big client that we signed up in Canada. That business will grow very handsomely. The pressure that we are seeing in telecom is more in India domestic and I am sure you are aware of what is happening in that telecom market. There is a price war going on and therefore, we may have headwinds on pricing in that. Volumes are also low and the third factor that will impact us is the increase in minimum wages that many of the states have implemented. So unless we are able to pass on our cost up through a price revision, we will have some headwinds in our India domestic margins. Our ability to pass on increased cost to our clients is a little suspect because of the turbulence that is happening in their own industry. So it is a matter of conjecture actually. The good news is that this business is really small as a percentage of our total revenues and therefore while the India telecom market goes through its churn and settles down somewhere, we have been able to increase our presence in the e-commerce vertical as well. So we are hoping that it balances out, but beyond these qualitative comments, I don't have specifics to answer your question.

Mohit Jain: Okay. And on the healthcare side, right, we are seeing some slowdown compared to when we started the year and when we ended the year. So there what is your outlook overall, 14%-15% kind of growth is what you think can sustain for next year?

Partha DeSarkar: I am not able to understand where you saw the slowdown and what is leading you to that conclusion?

Mohit Jain: I am looking at Q4 number wherein we are growing at 15% and 16%, whereas at the beginning of the year or if I look at 4Q 2016 or 3Q 2016, we are growing

at a much faster rate which was like 30 odd percent. So what I am trying to understand is when you say Healthcare growth will sustain next year and you are seeing good business there, are we looking at this the exit rate suppose say 15% odd kind of a YoY growth or are we looking at some acceleration from there?

Partha DeSarkar: No. The thing is that you should not look at this business on a quarter-on-quarter basis. If you look at a full year basis, our revenues from Healthcare have actually gone up as a percentage of total revenues. And as you will know, this has been our particular focus and we continue to believe that focus will pay off. So that is the generic statement that I will make, that we believe we have a very strong position in Healthcare. The business will continue to grow. We are expanding in all geographies. Earlier most of our growth came from our offshore locations. Now we are going to grow even onshore. So we are very bullish on Healthcare. So I do not really feel that it is something that you should be concerned about. Do not look at just a few quarters here and there.

Mohit Jain: Sir one for Pala. The employee cost this quarter has gone down on a sequential basis but headcount seems to be going up. So what should we expect there in terms of average salaries or is there some pyramid correction or is there more offshoring which can happen next year. How should we read these numbers?

Srinivas Palakodeti: When you look at numbers in rupees , on the flip side ,the dollar cost salaries would translate into a lower amount along with the revenue. So also the way the cost of employees will go, it depends on where the growth is happening. Is it more onshore or is it more on the India domestic part.

Mohit Jain: So this absolute decline like 3.8 or 4% that we have seen in fourth quarter, you are seeing that could have possibly happen because of 1%-1.5% currency movement and the rest on account of growth in other parts of the business not in US region?

Srinivas Palakodeti: Bulk of our employees are here. The costs are disproportionate from a location perspective. So if there is appreciation of the Rupee, there is also a translation into lower employee cost for the employees who are based outside.

- Mohit Jain:** Lastly on the margin front, year 17 is most likely to be around 12%. So when you say there are some headwinds in 1Q and FY2018 if we assume currency at current rates, will you be able to maintain or if there is a possibility of some shrinkage there?
- Srinivas Palakodeti:** If you see, we started off Q1 on a soft basis and margins improved during especially in Q3 and Q4 of FY2017, especially in the second half. So we don't see anything to say that this pattern will not be there. So clearly Q1 of FY2018, the margins will be lower than what it has been for Q4.
- Mohit Jain:** Q4 or Q12017, because Q4 is always higher?
- Srinivas Palakodeti:** There will be a drop in margin in Q1 of FY2018 compared to Q4 of FY2017. Now where will it stand compared to Q1 of FY2017 i.e., quarter ending June 2017 versus June 2016... clearly the exchange rates aren't what they are a year ago. There is some headwind there and we also spoke about the challenges you are seeing on the India domestic business related to telecom.
- Mohit Jain:** Got it. Sir, last I think I asked, on the dividend side, is there a possibility of, the payout ratio has gone down this year.
- Srinivas Palakodeti:** Yes. So the dividend has been Rs. 2.5 per share per quarter as for the last 3 and that is what has been also been the final dividend. So it is a total of Rs. 10 per share. But clearly it is in line with what we have said earlier in FY2017 of conserving the resources of the company and use that for growing the business and for paying down debt.
- Mohit Jain:** We should assume this ratio to be more or less in the same range.
- Srinivas Palakodeti:** As we go along, it is for the Board to decide but we will see how things shape up in FY2018.
- Moderator:** Thank you. We will take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir considering the good exit rate, I mean obviously the headwinds, what is the kind of target margin we are looking at internally for next year?

- Srinivas Palakodeti:** We don't give guidance. I can't give you a direct response to that question.
- Madhu Babu:** And how is the outlook in top 10 and top 20 accounts for the next year and how the growth will be driven? Is it from the top accounts and new deals as well or new accounts mainly?
- Partha DeSarkar:** It will come from both. Generally what happens is the top clients are so big that even a small growth rate on a large installed base gives eventually a big growth in revenue. Whereas the new clients are generally small even at very high growth, their numbers, their absolute number of growth will probably be small compared to the big guys. So our growth will come from both ends. Particularly, the Canadian client that we have signed up in quarter 4 will grow significantly next year. To answer your question, growth will come both from existing clients in the top 10 and from the new clients that we have signed up.
- Madhu Babu:** And sir in terms of net debt, the reduction has been good this year and assuming this kind of momentum, if we turn a net cash company, how would we look at in terms of deployment of cash? Are we looking at further acquisitions because that has been our track record earlier?
- Partha DeSarkar:** So, there are two questions that you asked. One is about the deployment of cash and two is what are we looking for acquisitions. So these are not necessarily linked questions. We continue to look at M&A as a way to add new geographies in our mix and new capabilities. So that is answer to your second question. The answer to your first question is we will pay down debt as and when it becomes due but you have to take into account the fact that we are a growing company. Therefore there will be expansion in working capital needs as our topline grows. So those are the two ways that I can answer the question that you asked.
- Madhu Babu:** And lastly if I may, when is the wage hike scheduled for the company and what would be the quantum?
- Partha DeSarkar:** Wage hikes have already happened in April.
- Moderator:** Thank you. We will take the next question from the line of Amitabh Sonthalia from SKS Capital. Please go ahead.

Amitabh Sonthalia: While we have had a great year and you acknowledged some of the headwinds going into next year, my concern of these stems on the fact that in the past whenever we have had a really strong year like the one we have had in FY2017, it has been followed by 2- 3 weaker years or were not just soft in terms of growth, but in terms of hit on profitability etc. So what would you say could be different this time in terms of ensuring that we maintain a certain run rate of profitability as well as margins and free cash and further debt reduction etc. In the next couple of years, how we protecting ourselves from any severe downturn in the market or our own segments?

Partha DeSarkar: Amitabh, thanks for reminding me of what we had earlier. I can only tell you that I guess we have better visibility of our business today than we had at that point and we did not see the Canadian economy crashing the way it did. Today, we have much better visibility is the first comfort that I will give you. So with that visibility, I can only tell you that we do not see anything beyond the headwinds that I mentioned that can impact our business. There are two things that I mentioned. One is the India business which is about 14% of our revenues. There are two points of pressure here. One is it still continues to be telecom dominant and you are aware of the churn that is happening in that particular industry and the fact that the players are under profit pressure. So we believe that their profit pressure, they will try to translate that profit pressure down to us in terms of asking us to drop prices. While that may be their ask, we are pretty sure that we are not going to yield to that and therefore there will be a bit of posturing as to how we deal with that. We are in a better position now to stand up because we have got more clients and there are other lines of businesses that can provide us growth. So we do not expect that we have to yield it to those pressures, but it is a negotiation Amitabh and all I am saying is that we are in a strong negotiation position today than we were before.

Second headwind is on account on minimum wage increases. Some of the states have really jacked up minimum wages so much that operating out of tier 2 and tier 3 cities is difficult. The original rationale or moving to tier 2 and tier 3 cities was that the wage rates were lower. Now, they made it standard across the states. So, some of the rationale has actually gone away. That is again another pressure point on the India business. So, what I see today is that India domestic business has had a fantastic year in 2016-17. It will be under some

pressure in 2017-18 is what I see clearly and that is one headwind. The second headwind is actually things that we do not control. One of them is the appreciation of the Rupee. It is my opinion as an armchair economist that there are no fundamentals to drive the strengthening of the Rupee and it is more emotion led than fact based, and therefore at some point of time, this strength will reverse hopefully. If you are back to the levels which it should be, then I think we will be okay but if there is something which happens irrationally resulting in further strengthening of the Rupee, then the armchair economist will actually be proven wrong and that can impact. So these are the two things that I see as headwinds which I clearly see. There is nothing else in our business that can cause the kind of issues that we had earlier. So that is my high level response to your question.

Amitabh Sonthalia: And globally what do we see in terms of the environment of overseas business because that is the bulk of our business anyway?

Partha DeSarkar: Actually it is business as usual. There were lot of concerns with the change in government and what will happen to healthcare and all of that. The fact that we are employing more and more people onshore is in our favor and I think that is positive commentary for us because that is the way the government looks at us both in UK and USA, where we have expanded. We are using work at home technology in Canada. So I think the protectionist pressure some of our IT peers are facing today because of H1B visas, those do not impact us. We are actually seeing this as an opportunity because of our better footprint out there. I think we know how to do business onshore as opposed to some of our peer groups. So again, no headwinds there.

Amitabh Sonthalia: And lastly we have had a fair bit of healthy free cash flows this year, you explained a dividend policy that you are conserving cash by distributing less dividends. But we have a fairly healthy cash position now and debt is quite reasonable now. So going forward based on our healthy further improvement in cash flows, which are probably expected in next 1 or 2 years, do you not think it is right time for the company to consider a buyback for two reasons: one is more efficient way to return cash to shareholders since now you do not have too much of CAPEX requirements over and above your free cash generation and secondly also to correct the valuation that somehow you have

not really created shareholder value despite very healthy growth over the last 10 years. Thirdly also because as a sector as you have seen in the past few months, more and more IT companies and software companies have been returning cash to shareholders in the absence of big growth numbers that most company see going forward. So just wondering if there is any internal thought process or discussion on that front?

Partha DeSarkar: Amitabh, this is a very sensitive item. LODR does not allow me to talk about this openly. So, I will not be able to give you a specific yes or no answer; it is a good suggestion. I will take your suggestion back to the board is all I can say. I would say that the cash that we are generating in the business is allowing us to build our innovation capability. As you well know this industry is transforming with a lot of change happening - technology is coming in, Digital, analytics, RPA are coming in. So this creates areas of opportunities for us and we invest in building those capabilities. It is beyond investing in seats, beyond investing in M&A, we keep building new capability. In the last three years, every year we have spent about anywhere between \$5 to 10 million to build innovation capability. So that is something that we have to focus on. So debt reduction, building innovation capability and M&A are the users of cash. Whenever it is going to use the cash to do buyback, your suggestion is a good suggestion. I will take it out to the board and beyond that, Amitabh frankly I am tied by what LODR tells me I can comment on.

Amitabh Sonthalia: I appreciate that Partha. And just very quickly any acquisitions that we have in the pipeline or are we sort of actively pursuing this year or do we have any sort of organic growth targets for the year?

Partha DeSarkar: We do have an organic growth target and acquisitions for us is not really anything special. We have a team in acquisitive mode. So that is where I would keep this. So this business is usual, nothing different and again as you well know LODR prohibits me to talk about this in advance. So beyond saying that acquisition is a part of our business strategy, I will refrain on being more specific about that.

Moderator: Thank you. The next question is from Subhankar Ojha from SKS Capital. Please go ahead.

- Subhankar Ojha:** Just one related question basically. Can you give a breakup of the CAPEX that you had last year of Rs 177 crores. And also if you can give a breakup of the CAPEX that you are talking about for FY2018 which is similar.
- Srinivas Palakodeti:** I do not have the exact number, but it is my sense about 40% went for growth and the balance would go for replacement and investments into getting new capabilities and those kind of new initiatives. So that would be the broad breakup.
- Subhankar Ojha:** And your FY2018 guidance which is almost similar, will it have a similar breakup, 40%?
- Srinivas Palakodeti:** If we are able to move into OPEX obviously, the number itself will increase, but roughly yes. The figure would be in that range.
- Subhankar Ojha:** Secondly, I think Mohit has asked the question on the EBITDA margin guidance for 2018, do we have a scope to improve the margin or we probably raised to 13.3% adjusted number. Is it something that that you cannot do or is there a scope to improve the same in FY2018?
- Srinivas Palakodeti:** Obviously, we will like to further expand in terms of rationalizing cost improving utilization to improve margins. That much we can do on the cost side. The headwinds we already spoke about, given where the Rupee maybe and the challenges on the India domestic market especially on the telecom side.
- Subhankar Ojha:** And you mentioned about the turnaround in UK operations in FY2018, so is that going to add to the EBITDA meaningfully in next year?
- Partha DeSarkar:** Yes, that is the hope. It is a small operation and we will have to invest on its growth as well. So that is the hope. By the time it turnarounds, it will contribute well towards the bottom-line.
- Moderator:** Thank you. We will take the next question from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** The question is around the bottom-line growth if you see was not matched with, so the EBITDA margins were very healthy and therefore we recorded good

growth in EBITDA, but it did not transform to equivalent bottom-line growth. Was it due to FOREX loss of around Rs 20 crores in this quarter?

Srinivas Palakodeti: Yes, that is right. If you see this quarter, the biggest item impacting the performance is about Rs 22 crores of FX loss.

Lalaram Singh: So this is just translation in nature?

Srinivas Palakodeti: It is primarily. I have to restate my receivables at the end of quarter compared to what it was on the date of billing.

Lalaram Singh: So this will not actually transfer into lower cash flows prevalent for the company?

Srinivas Palakodeti: Also we take forward cover, so we have cash flow hedges in play.

Moderator: Thank you. Ladies and gentlemen due to time constraints, that was the last question. I now hand the conference over to Mr. R. Ravi for closing comments.

R. Ravi: This is Ravi here again. Thank you all to all participants for joining us on the conference call. If there are any further queries or clarifications about Q4 FY2017 or on the FY2017 financials, please email me or Pala, the CFO and we will be more than happy to get back to you. This is Ravi signing off on behalf of HGS management. Thank you to all.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Hinduja Global Solutions Limited, that concludes this conference call for today. 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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