"Hinduja Global Solutions Limited Q4 FY 2018 and FY-2018 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, good day and welcome to the Hinduja Global Solutions Limited Q4 FY 2018 and FY 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. R. Ravi, Head of Investor Relations, Hinduja Global Solutions Limited. Thank you and over to you, Sir.

R. Ravi: Thank you, Janis. 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 FY 2018 and the full year FY 2018 post results conference call. To discuss the quarterly and the full year financial results, I am joined by Mr. Partha DeSarkar – the CEO of the company and Mr. Srinivas Palakodeti – the CFO.

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

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

Partha DeSarkar: Thank you, Ravi. A very good afternoon to everyone and thank you for joining us on the call today to discuss our fourth-quarter and full-year FY 2018 financials and business performance. We hope that you have had an opportunity to review our press release and the factsheet of the reported financials for the quarter under review and for the full year, which are available under the investor's section of our website as well as in both the stock exchanges. As always, I would like to start with the broad overview of the financials 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.

To start with, there has been no let up in the revenue run rate. For the first time in Quarter-4 2018, we surpassed US $ 150 million of revenue in the quarter and I am happy to share with all of you that we have also improved upon it by touching US $ 156 million in Quarter-4. In Rupee terms, for the first time, the revenues crossed Rs. 10,000 million, that is Rs. 1000 crore mark for the quarter. Quarter-4 FY 2018 revenues grew by 7.9% on a year-on-year basis; however, due to Rupee appreciation, the reported revenue growth in Rupee terms is 6.8% year-on-year. For FY20'18 on a full-year basis, the revenue grew by 6.8% year-on-year in constant currency; however, in Rupee terms, the revenue growth was 3.7% due to Rupee appreciation, and these growth numbers in percentage were all organic growth numbers.

The healthcare vertical continues to report strong revenue growth across various clients. The recently concluded open enrolment season went off very well including the US onshore delivery. In Quarter-4 FY 2018, we won two new contracts with the existing healthcare customers, and for the second quarter in a row, healthcare vertical contributed to over 50% of the overall revenue. I am delighted to share that in FY 2018, a leading US-based healthcare insurer has become HGS' first $ 100 million account in terms of revenue. This client has been with HGS for more than a decade.

I will now come to Minimum Wages Act and the M&A expenses that impacted the margin for this quarter negatively. Increase to minimum wages in some of the states where we have operations in India, especially in Karnataka, had an adverse impact on Quarter-4 EBITDA margin by 204 basis points. The impact of Rupee appreciation adversely affected EBITDA by about 17 basis points and you will recall that HGS announced two acquisitions towards the end of FY 2018. Expenses related to these M&A adversely affected the Q4 margin by about 84 basis points. Netting of the impact of these three items, the EBITDA margin for Quarter-4 would have been about 13.15% in line with the 13.3% we achieved in Quarter-4 FY2017. During Quarter-4 FY2018, we decided to write-off goodwill of Rs. 120 million related to the UK business as an exceptional , one-off non-cash charge. With the written off goodwill, the net profit for Quarter-4 declined by modest 1.4% sequentially; however, on a year-on-year basis, it grew by 13.1%. Apart from healthcare, the growth in Quarter-4 was driven by a strong performance in North America and Philippines.

Let me now give you a perspective of how all our geographies have fared. North America operations truly are turning around. Our US operations reported a very strong revenue growth of 24% year-on-year in Quarter-4 2018 while Canada reported a 5.4% year-on-year revenue growth in the quarter. These were obviously wonderful numbers. We have been reassuring you that the Canadian operations would be turned around at the earliest on previous calls, and I am happy to share that the Canadian operation is almost breakeven for FY 2018.

In the last few months, we have won several new logos in the verticals of financial services, retail, media and telecom in North America. These include engagements to provide digital services such as social CRM. The recent wins are expected to provide a strong base for revenue growth in FY 2019.

We had mentioned about the increase in the minimum wages in Ontario province in Canada due to the changing laws in our previous quarterly conference call. The new minimum wages came into force from January 1, 2018, and HGS has been able to pass on the cost increases by negotiating revised commercial client terms with the clients. I would like to reiterate that the net impact on the EBITDA margin from these minimum wage revision is therefore minimal.

Looking at the strong revenue growth in US, HGS is planning to open a new centre in this region in second half of FY 2019.

Jamaica continues to report strong revenue growth as well. It grew at the rate of 23.7% year-on-year for Quarter-4 2018. This is primarily driven by US-based healthcare clients. In the second half of FY 2018, a modest start has been made to diversify the client portfolio with two wins in consumer packaged goods and energy vertical to offer a mix of digital and traditional call centre service.

Moving onto the UK operations, within a short span of time, the new UK management team has managed to significantly improve the operations, led by clocking better margins with some of our top client accounts. However, UK still has significant empty seats and the focus is to grow revenue and improve seat utilization in the new fiscal. Given the decline in revenues and the headwinds in the business last year, we have decided to write off goodwill to the tune of Rs. 120 million. This has been done on the ground of prudent accounting and is a non-cash based accounting charge only.

Now, we come to the India CRM business. In Rupee terms, the revenue for Quarter-4 FY20'18 was up by 2.9% sequentially and 6.8% year-on-year. The India CRM business is largely telecom based and we continue to see volatility in business volumes. As part of the business consolidation, our Siliguri Centre has ceased to operate in Quarter-4. Part of those volumes and some of the employees have been transferred to the Durgapur Centre. HGS has seen several wins and verticals such as financial services, consumer, retail, consumer goods, etc. in FY2018. HGS expects these wins to help reduce the dependence on telecom in FY2019. To cater to the growing demand from non-telecom clients, we plan to set up a new centre in Pune.

The increase in minimum wages continues to be an area of concern. Effective end December 2017, Karnataka Government has increased the minimum wages for those working in the BPM industry under the Shops and Establishments Act by around 70% to 75%. Based on appeals filed by various companies, the Karnataka High Court has given a stay on the Karnataka Government order, but pending the final order of the Karnataka High Court and as a matter of prudence, the impact of increase in minimum wages has been provided for in the Q4 financial.

To mitigate the adverse impact of these minimum wage increases, the company has initiated several measures, which include focus on premium services - its higher price points in wages are above the minimum wage level, look at expanding in non-telecom sectors like financial services, consumer sector, etc. where the price points are better. Within the telecom vertical, move from servicing lines of business and staffat minimum wages to premium services like email, chat and servicing premium customers, negotiate price increases from clients to offset the increase in minimum wages, exit low margin accounts or accounts where the rate increases cannot be achieved, and lastly achieve better utilization and cost management through site consolidation wherever appropriate. It is going to take us some time to implement these seven steps that we have mentioned. As a result, our domestic CRM business will face headwinds throughout the coming fiscal.

Coming to the India HRO business, the HRO business in contrast continues to do very well and add clients for its payroll processing, staffing and compliance services. This HRO business in this year added 22 clients and revenues grew by about 29%. The business, which had started with only payroll processing, has expanded its service offering to include compliance services, staffing, managed services, recruitment and F&A services.

Let us go to Philippines now, the performance of the Philippines operation continues to be very strong with revenues in PHP terms growing by 10.8% sequentially and 15.9% year-on-year basis. The strong growth in revenue numbers is seen alongside a very good margin expansion. During quarter four of FY2018, we expanded existing centres significantly, driven by demand in healthcare and consumer vertical. Going forward, in FY2019 we would be adding a centre in the city of Cebu in Philippines and expand our existing Iloilo centre. We expect to add around 620 seats in these locations in Philippines.

The recent client wins give us the confidence that FY2019 will be much better in growth terms. During the second half of 2018, HGS has had several client wins, which are likely to drive higher revenue growth in FY2019. The new wins were across industries like healthcare, cable television, retail, consumer and financial services. More importantly, these wins are broad-based in terms of delivery locations and cover the entire gamut of offerings like voice, chat, email, as well as social media. We also expect to open up new delivery centres in India, Philippines, and US because our capacity utilization in this countries have reached a very high level. We are expecting to add around 1,600 seats in these locations to meet the growing demand for our services.

Coming to services footprint, over the last three years we have invested heavily in developing new capabilities such as robotic process automation, digital services like social care and DigiCX, analytics, work at home, and platform services. These investments are starting to give results; we are working on several engagements related to this area, while supporting over 20 clients. We are inspired by the feedback that we have received from our clients and our focus is to provide them with differentiated experience led by technology-based solutions. The recent acquisition of Element Solutions is a part of this strategy.

For HGS, the healthcare vertical continues to be the main driver of growth. Apart from continuing to offer traditional services in this vertical, the recent acquisition of AxisPoint Health would help us offer higher domain services in segments like case management, patient outreach and follow up, and pharmacy benefits management. These services are all about personalizing the care experience and require specialized skills like coding, nursing and analytics. I would like to reiterate that we will continue to focus on strengthening and expanding our services footprint and portfolio offerings. Apart from foraying into new geographies like Latin America, we would be looking for strategic partnerships in healthcare verticals and in segments like digital, analytics and robotics, and machine learning which are relevant to our business.

During the earlier earnings call, we had shared with you that the process of merging HGS ISPL, a wholly-owned subsidiary into HGSL has been initiated and subject to necessary approvals. The merger process is expected to be completed in the first half of FY 2019 and the benefits of merger are expected to be seen during FY2019.

Looking ahead for FY2019, the revenue outlook is very positive as I mentioned above and we expect strong performance from US, Canada, Philippines and Jamaica. The India offshore business, which has significant number of employees in Karnataka and the India CRM business will face margin pressure because of the Karnataka minimum wage increases. Effective April 2018, HGS acquired AxisPoint Health and Element Solutions. As mentioned during the analyst call of April 4, 2018, AxisPoint Health has seen some client losses prior to the acquisition. The current revenue base is not adequate to cover the fixed cost structure of AxisPoint. Pending cost reduction measures becoming effective and growth in revenues from new clients or cross selling to new HGS clients etc., AxisPoint is expected to have EBITDA losses during the course of FY2019. As explained in our earlier calls, AxisPoint is strategic to the future growth of our healthcare business by giving us access to clinical and cost containment space.

To sum up, we anticipate strong revenue growth in FY2019, organic as well as because of the acquisition. There will be some margin pressures on account of the Karnataka minimum wage adjustment and the AxisPoint acquisition, but a strong dollar may counteract a part of that and that is hard to predict, but we will see continued healthy EBITDA to cash flow generation in FY2019. In conclusion, I would like to highlight that our endeavour is to build a sustainable and scalable business model. The idea is to be aligned with our clients' requirements and the technology shifts, and at the same time be able to grow revenues and margins significantly. I would now hand over the call to Pala to walk us through the financials in great detail. Thank you all once again for being with us on the call today.

Srinivas Palakodeti: Thank you, Partha. A very good afternoon to everyone on the call and thank you all for joining us on our Q4 FY2018 and full year FY2018 earnings call. For the benefit of those who have not been on the earlier calls, I would like to start with by repeating a clarification I have given earlier. The results for Quarter-4 of FY2018 and full year FY2018 are published as per SEBI guidelines and as per Schedule 3 of the Companies Act 2013. As per the Schedule 3 of the Companies Act, if a company has Forex gains, then the gains are added to the other income; If there are Forex losses, they are added to the other expenses. EBITDA margin expansion on contraction on a sequential quarter basis or on a year-on-year basis should be seen keeping in line this regulation. For the process of this discussion, EBITDA and EBITDA margins have been computed excluding Fx losses and gains which have been taken on part of the other income. This is being done so that we have a better comparison on an Apple-to-Apple basis.

Now, I turn to discussing the financials for the quarter and year under review. Our revenue growth remained strong. In constant currency terms, Q1 revenue growth was 6.4%, Q2 was 6.5%, Q3 was slightly lower at 5.2%, and Q4 had increased sharply to 7.9%. On a full-year basis, constant currency growth was 6.6%. However, due to the strengthening of the Rupee during FY2018, in Rupee terms the revenue growth came in at 3.7%. The growth of 6.8% in Rupee terms during Q4 was driven by overseas revenues growing by 8.1% while domestic revenues declined by about 0.5%. The improved performance of Q4 FY2018 overseas revenues in Rupee terms can be attributed to the fact that Philippines operations grew by 9.6%, US and Jamaica reported 9.2% year-on-year growth and India International grew by about 5.8%. Overall, North America operations in Q4 FY 2018 grew by 9.4% in Rupee terms.

For the second quarter in a row, the revenues crossed the $ 150 million mark and for the first time our revenues for the quarter have crossed Rs. 1,000 crores mark. The healthcare vertical continues to report strong revenue growth across various clients. The recently concluded open enrolment season went off well including the US onshore delivery, which has grown significantly in FY2018. For the second quarter in a row, revenues from healthcare vertical accounted for more than 50% of HGS revenue, and on full FY2018 basis, healthcare accounts for 49% of the total revenues.

The other verticals in terms of percentage to Q4 FY 2018 revenues were more or less in line with the last few quarters' averages. US onshore for Q4 accounted in USD terms grew by 13.2% year-on-year, near-shore Jamaica for Q4 grew by 23.7% in USD terms and Canadian operations grew by 5.5% in CAD terms in Q4. Offshore to near-shore revenues for Q4 stood at 48.2% of revenues up from 46.4% in Q3. On a full-year basis, offshore and near-shore revenues accounted for 47% up marginally from 46.5%. We have seen strong growth in the onshore healthcare as well as the CET business, especially in the US side. In terms of revenue mix by currency, USD continues to account for more than two thirds of Q4 FY18 revenues followed by Canadian dollars at 11%, the British pound at 7%. Rupee revenues declined from 16.4% of revenues in Q1 of FY '18 to 14% in Q4 of FY18. This drop is primarily on account of the challenges we have seen on the India domestic business, especially on the CRM side. As Partha mentioned, the HRO business continues to perform well and show strong growth. We continue to review and rebalance the mix of our onshore, near-shore, and offshore revenues.

During FY2018, EBITDA margins dropped from 11.9% in the previous year to 10.5% in the current year. If the impact of increase in minimum wages, M&A expenses and the strong Rupee are excluded, EBITDA margins for the year would have been in the range of 11.3%. On a full-year basis, debt reduction, better working capital management and interest rate management helped reduce interest cost by about 19.3%. Depreciation and amortization costs fell by 1.3% over the previous year and account for 3.7% of the revenues. Between FY 2018 and FY 2017, other income increased by Rs. 378 million. Of this increase, around Rs. 80 million is on account of interest on tax refunds received; the balance is primarily on the account of exchange rate variation. The exceptional item of Rs. 120 million was on account of goodwill impairment on the UK business. Tax expenses during the year fell by around 17.5%. This is on account of reduction in tax expenses of about Rs. 169 million of prior period as well as increased profitability of the Philippines operations, which have some delivery centres in tax benefit areas. Factoring the above items, HGS has received the highest profit after tax of Rs. 1,921 million, an increase of 7.2% over FY 2017.

On account of minimum wage impact, M&A expenses, impairment, exceptional item, Q4 FY2018 profits were marginally lower by 1.4% as compared to Q4 of FY 2017. Total dividends for the year stood at Rs. 10 per share, a payout of 13% including dividend distribution tax of the consolidated profit after tax.

Business ROCE computed excluding treasury surplus and treasury income for the quarter and excluding the one exceptional item of Rs. 120 million was 19.4%. On a full-year basis, business ROCE was 16.9%, excluding the impact of the exceptional item and at 16.2% after factoring the exceptional items.

Gross debt increased marginally during Q4, but on a full-year basis we have reduced gross debt to the tune of Rs. 704 million. Gross debt to trailing 12 months EBITDA stands at 1.44. During Q4, our cash and treasury surplus increased by Rs. 1,021 million. Net debt during Q4 decreased by Rs. 686 million and on a full-year basis, it declined by Rs. 181.5 million as a result of the increased treasury surplus. For Q4 FY 2018, after excluding some one-off items, 43% of the EBITDA converted into free cash flow and on a full-year basis stands at 38%. As against the capital expenditure of Rs. 1.78 billion for FY2017, we have incurred a CAPEX of Rs. 1.26 billion in FY2018.

We have mentioned in our earlier calls we had started on this initiative to take increasing number of seats on OPEX basis and that is becoming visible in terms of the reduction in CAPEX. During FY2018, 1,784 seats were added, of which 209 seats were on CAPEX basis and around 1,575 are on OPEX basis. The incremental OPEX to CAPEX seats are in the ratio of 7.5.:1. CAPEX seats at the end of Q4 FY 2017 accounted for 86% of total seats and stand at 83% at the end of Q4 FY 2018. The OPEX model has been implemented in India so far. We are optimistic about implementing this model for the new centres we are planning to open in US and Philippines this year.

Headcount as at March 31, 2018 was 44,265, a drop of around 2,056. While headcounts have increased in UK and Canada, there has been headcount reduction in all other geos. This headcount reduction is on account of seasonality relating to the healthcare business and pruning of the headcount on the India domestic business as we have seen headwinds on the telecom-based revenue.

With this, I would like to stop and throw the floor open for question and answers. Thank you.

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

Mohit Jain: Sir, question is on Canada operations, if I look at the revenue breakup by currency where I am assuming Canadian currency revenue will all come from Canada, there seems to be like 20% to 22% kind of a growth on a YOY basis, just wanted to understand what is happening there and what kind of outlook do we have for '19?

Srinivas Palakodeti: As I said, the Canadian business, we had some challenges in the past; it is coming out of that and we have added clients, renegotiated commercials with the existing clients to factor into account the increase in minimum wages in Ontario what we talked about. The ability to earn revenue was always there but the challenge was to have the ability to hire people in the locations which we operate. In the past, that has been a challenge; it still continues but there has been a significant improvement in our ability to hire people to service calls due to the increase in our work at home agents, which we focused on, starting in January 2017. At end of March 2017, we had around 30 By March 2018, this has gone up to 300, so we are very optimistic about growth in revenues in the Canada.

Mohit Jain: Sir, difference between Canadian, so you give two types of breakup, one is by delivery centre; Canada has significantly high offshoring in this particular year versus last year or what shall explain the difference between the two growth rates?

Srinivas Palakodeti: Sorry, where are you looking at?

Mohit Jain: One is revenue by delivery centre.

Srinivas Palakodeti: Correct.

Mohit Jain: Second one is by revenue by currency.

Srinivas Palakodeti: Correct.

Mohit Jain: Revenue by currency I am looking at Canadian Dollars, so there I am getting is 20% to 22% growth, but if I look at it in terms of revenue by delivery centre, then Canadian operations have grown by 10% to 12% I think?

Srinivas Palakodeti: Correct, almost everything is on the local delivery.

Mohit Jain: Then the two growth rates should have been similar, right, if everything is local?

Srinivas Palakodeti: If you look revenue by currency, it has gone up from about 915 to 1,100 million, there will be some impact of conversion into Rupees, there is an impact of exchange rate also that you have to factor in.

Mohit Jain: How much is the organic like to like growth in Canada?

Srinivas Palakodeti: If you look at revenue by delivery, then this is talking of about 10%, so 915 going up to 1004, so that is the growth.

Mohit Jain: I am on this particular page where both the tables are there, so if you look at Q4 '17 from Canadian Dollars we have Rs. 915 million as revenue and in the table which shows revenue by delivery that also had 915, but if you go to Q4 '18, revenue by currency has moved to 1104 million, where revenue from Canada has only moved to 1004, so there is this 10% gap which had happened in Q4 '18…?

Srinivas Palakodeti: That is an impact of exchange rate and something which may have gone offshore to Philippines.

Mohit Jain: That is what I wanted to check.

Srinivas Palakodeti: Small portion, it is not significant.

Mohit Jain: But 10% growth is like significant because we were declining in Canada earlier?

Srinivas Palakodeti: Yeah, it is on a path of growth and improvement in profitability.

Mohit Jain: What is it like in terms of growth; you said you have added new clients as well, so what is the outlook now for next year?

Srinivas Palakodeti: It continues to remain strong, so we expect to grow in FY 2019 over FY 2018.

Mohit Jain: But this kind of growth rate will obviously not continue?

Srinivas Palakodeti: No, what has happened is there is a client who we added towards the end of last year, so we got a full benefit of that particular client during FY 2019. We can grow with that client, there are large opportunities to grow there, at the same time we would like to obviously add new clients in our growth journey and not limit ourselves to a few clients.

Mohit Jain: Second is on the growth rate for 2019, I am excluding the acquisitions for the time being, what kind of growth rate you are looking at industry in IT, BPO, all combined together, but for BPO what kind of growth rate would you like to benchmark yourself to?

Srinivas Palakodeti: If you have seen from a constant currency terms, we have 6.6% growth on a full-year basis and we talked about the signings which we have had towards the second half of the year or clients which went live during Q3 and Q4. We will get full year benefit of that from the clients who were added during FY '18 and the pipeline is also pretty strong.

Mohit Jain: There is a chance of revenue acceleration compared to what you have done in FY 2018?

Partha DeSarkar: I think we are starting off on a very strong base at the beginning of the year; I would say that 6.6% growth is probably been the slowest growth in our history and that is because of the fact that we have signed up the new clients in the second half of the year and we got revenues for only a part of the year. But that bodes well for the next fiscal year because the full-year then comes into play. So that is what is going to happen in this coming year, which we are very bullish about. Specific numbers, Mohit, you know that we do not give guidance.

Mohit Jain: Second thing on the top 10 clients, there were also some growth momentum in building up, any churn there in top 10 accounts or these are the existing accounts, which are growing fast now?

Srinivas Palakodeti: When you say top 10, all the top clients are doing well but as clients grow, Number 12 can become Number nine and there is some churn is happening from that perspective, but the clients all continue to be with us.

Partha DeSarkar: Yeah, the only thing I will add is that, if one of the Indian telecom players is in our top 10, we will have to see how that thing plays out and we may have that client replaced by some other clients from some other geography.

Mohit Jain: Sir, last is on revenue per employee, so what is the trend there, we had declined marginally in 2018 versus 2017, and we also declined in 2017 versus 2016, but that was primarily on account of India operations I guess, so 2019, how are the pricing trends moving and where do you see?

Partha DeSarkar: In general, these are better seen on a quarter-to-quarter basis rather than on a year-to-year basis. If you see Canada, there is a drop, but there has also been a significant increase in the headcount in Canada; so this is really in terms of the timing difference, where you have to hire employees upfront, train them before they start generating revenues. So revenue per employee for us in general is not an area of concern. We talked about the challenges on the India CRM business

Mohit Jain: Otherwise, broadly there is no pricing pressure that you guys see for next year, FY 2019?

Partha DeSarkar: Apart from Indian domestic, I do not see anything. India domestic situation is different, we have to ask for a price increase because the cost of operations has gone up.

Mohit Jain: Excluding India, there is no such thing?

Partha DeSarkar: We do not see anything.

Mohit Jain: Any chances of pricing going up because they are almost at the lowest end, so is there a possibility of going up by 3%-5%.

Partha DeSarkar: I think a better way to answer that is through pricing, because revenue per employee has a huge range between India domestic and the rest of the business.

Mohit Jain: If you remove the India domestic part, then is there a possibility of it going up?

Partha DeSarkar: We do get certain increases contractually; like the cost of living adjustments, we do get some of that contractually.

Mohit Jain: 1% to 2% is something which can be expected?

Partha DeSarkar: Again, I cannot talk about that.

Moderator: Thank you. We take the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: How should we look at margins for next year; you talked about the minimum wage headwinds that will probably continue, and secondly, with the seat expansion what will be the CAPEX plan?

Srinivas Palakodeti: Hi Apurva. as far as CAPEX is concerned, the spend base is worked out depending on whether it is on an OPEX model or CAPEX model. Clearly doing it in India has been demonstrated, so that is not a challenge and its working well. We are looking to replicate it, as I said, in the US and Philippines expansion, provided the economics work. We are not going to do OPEX just for the sake of OPEX; it needs to make financial sense. But on an overall basis, we would try to keep the CAPEX for the year in the range of what we have done in last couple of years. This year may be slightly on the lower side, so maybe some potential increase but it will not be at the levels what we saw two to three years ago.

Apurva Prasad: On margins, how should I see that?

Srinivas Palakodeti: With respect to margins on the core business, I think we are pretty optimistic of keeping margins what we have seen in FY 2018 or potentially improving. Because of the increase in wages, especially in Karnataka that is an area of concern - which Partha talked about earlier, and we also talked about the fact that AxisPoint opens up strategically a lot of opportunities on the healthcare, clinical cost, care management side, but obviously is a business which we have acquired and we have seen drop in revenues. So it is a matter of how soon we are able to grow revenues, manage cost to bring it into EBITDA positive range… hence there would be some pressure on the EBITDA margins, not really so much from the core business, but from the acquisition.

Apurva Prasad: Do we still think, we can grow margins from FY 2018 levels in FY 2019 with the levels that you talked about earlier?

Srinivas Palakodeti: I think it is probably better to say that on FY 2020 definitely, there would be scope for margin improvement because there is lot of work to be done in FY 2019.

Apurva Prasad: Lastly, on the capital allocation now that is returning net cash, what is the thought process there?

Srinivas Palakodeti: Whatever is scheduled for debt repayment, those debt reductions would happen. Wherever there are opportunities to prepay without incurring any huge penalties, we will look for that and we would continue to look for whatever is the funding required to grow the business, so that will obviously be first priority.

Apurva Prasad: Any plans to revisit the dividend policy?

Srinivas Palakodeti: We can revisit sometime next year for sure, but we will go to the Board for the Board to decide.

Moderator: Thank you. We take the next question from the line of Gaurav Agarwal, an Individual Investor. Please go ahead.

Gaurav Agarwal: Sir, my question is regarding the audit report on the consolidated results by the auditor Deloitte, they have mentioned that few of our subsidiaries I think they are more than 10 which have not been audited, so the total revenues if my calculation is correct of these unaudited subsidiaries is close to 28% of our consolidated revenue, so my question was when are we going to get them audited and when we are going to present the auditor report to the shareholders of these subsidiaries?

Srinivas Palakodeti: There are two things - we have had a change in auditor, we had PwC till last year who had to retire out and now Deloitte has come in. The approach between PwC and Deloitte is the same, so in terms of what was being audited by PwC is now being audited by Deloitte, so there is no change compared to last year. Second, they have just said these are the ones we have audited, the other ones are not audited. Wherever there is a statutory requirement for instance in UK, we do have audited accounts, which can be made available on the website as is the practice. Where there is not, where the amounts are small or whether there is no statutory requirement of auditor or some geography, the statutory auditor is not required, those accounts will be available on the website through management accounts.

Gaurav Agarwal: You do not plan to get these subsidiaries audited in future also, if I am correct?

Srinivas Palakodeti: I am clarifying, what it says is, suppose there are X number of entities, Deloitte has said they have audited Y, out of the difference between X and Y, they may be audited by different entities, that is all they are just clarifying, because we are giving the consolidated results, they are just clarifying how much is being audited by them andhow much is based on audits done by another audit firm.

Gaurav Agarwal: But the point six of the audit report in consolidated says that consolidated financial results includes the unaudited financial information of the 10 subsidiaries, it does not say it has been audited by someone else, it says they are unaudited?

Srinivas Palakodeti: Yeah, they may be unaudited as of now, but they will be audited in due course and uploaded on the website.

Gaurav Agarwal: In the future, over the period they will be audited and those audited will be available to us?

Srinivas Palakodeti: Yeah, unless there are some entities, which may not have any operations or very small, those would be unaudited.

Gaurav Agarwal: Total revenue mentioned is Rs. 406 crores of these 10 unaudited identities, so Rs. 406 crores is I think a big amount.

Srinivas Palakodeti: Yeah.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. R. Ravi for his closing comments. Over to you, Sir.

R. Ravi: On behalf of the management, thank you to all the participants for joining in on the conference call. If there are any further questions or clarifications about the Q4 FY 2018 or on the full-year financial 2018 financials, please email me or to Pala, the CFO and we will be more than happy to get back to you. This is Ravi signing on behalf of the HGS management. Thank you to all the participants.

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

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