Hinduja Global Solutions
Q2 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 Hinduja Global Solutions Limited Q2 FY2015 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and '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, Mr. Sharma.

Bijay Sharma

Thank you Zaid. Good afternoon and welcome everyone to Hinduja Global Solutions' Q2 FY2015 Earnings Conference Call. Joining us today on this call are Mr. Partha DeSarkar – CEO and Mr. Srinivas Palakodeti – CFO.

Before we begin, I would like to mention that some of the statements made in today's conference call may be forward-looking in nature, and may involve risks and uncertainties. For a list of the considerations, please refer to our Earnings Presentation. Now I would like to invite Mr. Partha DeSarkar to provide his perspective on the performance for this quarter. Over to you, Sir.

Partha DeSarkar

Thank you Bijay, and welcome everyone to Hinduja Global Solutions' Earnings Conference Call for Q2 FY2015. We hope that you had a chance to review our presentation and financials, which are available under the investors' section on our website. I would like to start with an overview of this quarter's financials, followed by the 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.

We had good growth this quarter too. We reported total revenue of Rs. 7,021 million indicating an increase of around 8.5% compared to the same period last year. This camouflages the fact that the real constant currency growth has been about 12% in volume terms. The growth for the quarter was offset to certain extent by unfavorable foreign exchange variations of about 3.5%. This growth was broad based across our geographies and verticals, with healthcare being the major contributor.

If you combine quarter one and quarter two, in the first-half of this fiscal, HGS' revenue grew by about 13.4% in rupee term. Out of this, 12.7% was growth in constant exchange rate. In other words, volume growth and foreign exchange impact was 0.7%. This growth has to be seen in the context of ramp-down that we have seen with our consumer electronics clients and some significant client exits that we have undertaken to improve the profitability of our operation. So the real growth has been much higher as we have also replaced those revenues that we have lost because of these ramp-downs.

EBITDA for Q2 FY2015 was Rs. 810 million. EBITDA margin was stable at 11.5%, same as the previous quarter. While the EBITDA margin has seen a drop compared to Q2 FY2014, the drop in the margin is really the cost of growth related to significant ramp-ups incurred in Philippines. Margins were also impacted by the start-up cost of our Middle East operations as well as ramp down cost as we continue to review and exit unprofitable operations.

On a year-on-year basis, interest cost has remained flat while there was reduction in other income of Rs. 60 million. The softening of the EBITDA margin coupled with a drop in other income led to PAT of Rs. 385 million for Q2 FY2015, which is lower than Q2 FY2014 by around Rs. 45 million.

Now moving on to the operational performance of the key verticals, the healthcare vertical demonstrated strong performance in India and in Philippines. All key healthcare accounts recorded robust growth in volumes while adding new lines of business.

Our Jamaican facility received a contract from our largest healthcare client to deliver voice-based customer care support. A new center has gone live in Kingston, Jamaica in Q3 and is expected to have 200 seats to service this healthcare client. On a year-on-year basis, healthcare revenues grew by about 38% and on a sequential quarter basis, it grew by about 12.1%.

We continue to be very bullish about the healthcare vertical. The Open Enrollment season has just started in the US, and will drive seasonal traffic into our centers and improve utilization. All the ramp costs are already accounted for and revenues will now start showing up. This bodes well for the next two quarters.

In the telecom sector, volumes in Canada and India were lower than expected but are anticipated to improve in the second-half of the fiscal year. Our Philippines operation continues to witness robust volume growth from a telecom client.

The consumer product vertical was a mixed bag. While we added clients in the food products, fitness and consumer electronics segment, we saw softness in volumes from existing consumer electronic clients. The addition of a new client in this segment will help us offset the decline and improve volumes in the coming quarter. We have added new consumer electronic clients but we are currently much smaller in size compared to the one that we had in the past.

I would now share some information about our efforts in the sales and marketing functions. We continue to invest in sales and account management to strengthen our client relationships. The focus is on driving growth in new logo sales even as we expect strong business expansion from our revenue from existing strategic accounts from the third quarter. We have been sponsors in major outsourcing events like NASSCOM in September. Our business leaders regularly speak in industry events like the World IT BPO Outsourcing Summit in New York.

We are now aggressively engaging with the analyst community to improve our brand recognition with them. The initial results have been very satisfactory. Nelson Hall has rated us a leader in the transformational customer management services space. We have featured in their Peak Report, which ranks the top 20 global players in this space. The Everest Group assessed us to be a major contender in the customer care outsourcing space.

Our Canadian operation won the Gold Stevie Award at the 11th Annual International Business Awards in the customer service category. Our UK operations were the highest ranked outsourcer in the top 50 Companies for

Customer Service in the UK. This ranking was published by the International Customer Management Institute and is a result of very rigorous evaluation. We have featured in this list for the second year running and this year, two of our client programs are featured in the top 50. HGS is the only outsourcer to have two program entries in the top 50.

We have also achieved the Level 5 in e-SCM, a business excellence model run by ITSQC. Very few outsourcing companies have achieved this level globally.

I would now like to discuss the operational performance of our geographies. The US operation continued its growth momentum, driven by a strong demand from existing and new clients across sectors. This included winning a contract from a global consumer electronic company for the launch of a consumer online self-help portal. I would like to call out our on-shore healthcare business which posted significant growth in this quarter. In Q2, we added a major client in the healthcare provider vertical in the US.

During our call last quarter, we had mentioned that we were in the process of shifting to a larger center in El Paso, Texas. Given the new wins and the sales pipeline, we are now considering retaining our existing center. Thus, we may end up having two centers in El Paso. We have been making an ongoing assessment of client wise profitability for all our accounts and expect to completely exit from some large unprofitable accounts by Q3 FY2015. This would enable us to further enhance our margins going forward.

In line with our expectation, the Canadian operation reported growth across all key client accounts. This was evident particularly in the telecom vertical, where we received a new line of business from an existing telecom client for email support and network troubleshooting. Our Montague site was recognized by an existing telecom client as its top site for customer satisfaction, first call resolution, average handle time and adjustments performance. We expect this operation to maintain a robust growth profile during the remaining half of the year. To enable us to service the projected increase in volumes, we plan to expand our existing facilities in the region. The ramp-up cost of this expansion might impact the profitability of the operation in the near-term.

Coming to our UK and Europe operations, we are focused on expanding our client relationship activities across key clients, primarily in the business to business domain. As a part of this, we strengthened our business development capabilities with a senior level addition. In Q2 FY2015, we secured a new contract from a leading FMCG company for multi-channel support. This support will be delivered over voice, email and web-chat with plans to add video chatting capabilities in the future. The service will be delivered from a 30-seat HGS interaction center located in West London, UK. A unique feature of this contract is that HGS will engage domain experts including nutritionists and qualified midwives to support the client.

Led by focused efforts in driving sales and enhancing profitability, we anticipate that our operations in UK and Europe will post significant revenue growth in the second-half of the fiscal year compared to the first-half. Our public sector clients are also doing extremely well in the UK.

The Philippines operation continued to focus on growth, primarily driven by robust demand from the healthcare vertical. During the quarter, HGS started handling an end-to-end clinical process queue for a major healthcare client. 75 US registered nurses have been hired to support clinical pre-authorization work for this engagement. Another big win was a new line of business from an existing healthcare client, which resulted in addition of about 100 FTEs. The telecom vertical also witnessed business expansion with an existing telecom client providing a mandate of additional 75 FTEs. This client is currently being serviced from Iloilo and recently adjudged HGS'operation here as a top performing site from amongst their 50+ centers that they have worldwide.

Looking ahead, we expect HGS Philippines to record strong growth. However, profitability may be impacted in the short-term due to a significant ramp up cost.

Let me share with you some details of our ramp-up plans. The emergence of our Philippines operation as a preferred destination has resulted in HGS launching three centers in Alabang in 2014, and we are now planning to open our fourth center in Q3 FY2015. The fourth site in Alabang will cater to a healthcare client. For the first time HGS will provide support to deliver Healthcare Effectiveness Data and Information Set (HEDIS) metric. Around 25 US registered nurses will be required to provide the support, wherein they will work on clinical abstraction of the clients' customers. We expect that significant expansion of our existing clients and interest from new clients will propel the Iloilo site to operate a near peak capacity shortly. Further, the start of the open enrolment season will result in a demand of over 1000 FTEs from an US-based healthcare client. The significant increase in demand profile has led us to contemplate addition of two new centers in Philippines with a capacity of around 900 seats.

Moving to India, the International business continued to perform well overall, primarily driven by our healthcare clients. Our EBOS business added new clients in the quarter but overall performance remained soft. However, based on the robust pipeline, we believe that we will continue to add new clients, which will have a positive impact from Q4 FY2015.

In line with our operations in the US and Philippines, the start of the open enrollment season is expected to benefit our India International business too and drive growth in the second-half of the fiscal year. We are projecting increased volumes in enrollment, account installation and calls.

The performance of the India Domestic business was in line with our expectations. During the quarter we added a new line of business for an existing telecom client based on FTE pricing even as we added clients across other sectors. The latter effort is part of initiative to reduce our dependence on the telecom vertical.

Our Middle East operations have just commenced. We have been servicing some clients in the Middle East from India. They have continued to do well. In fact, they have celebrated their first Anniversary in Q2.

Our HR Outsourcing business has also been doing very well. In the first-half of the year, it added about 20 new clients. It has also started a new line of service in HR Analytics.

In summary, we continue to demonstrate robust top-line growth as a company. We also maintained our EBITDA margins and operating profit margins compared to Q1 of this fiscal. We are currently operating at optimum levels in almost all our facilities and we will focus on aggressive expansion going forward due to increasing demand for our services. This may impact our profitability in the short run but will enable us to grow at a higher rate and sustained profitability in the longer-term.

Our ongoing focus on sales and marketing is yielding results, and being demonstrated by our growth rates. The pipeline that we have, coupled with various recognitions we received, encourages us to drive new benchmarks in growth in the second-half of the fiscal.

I would now like to hand over to Pala who will walk us through the financials in detail. Over to you Pala and thank you all for being with us on the call today.

Srinivas Palakodeti Thank you, Partha. Good afternoon everyone and thank you for joining us on our Q2 FY2015 Earnings Conference Call. Traditionally, the first half of the year has been slow for us, as compared to the second-half of the year. Despite that, we have reported a revenue growth of 8.5% year-on-year to reach revenues of Rs. 7,021 million. It may be noted that this is the first time our quarterly revenues have crossed the 7,000 million mark. In constant currency terms, our growth rate for the quarter was 12% over the same period last year. Offshore business accounted for around 37% of the total revenues during the quarter.

In terms of exchange rates, the average rate for the US Dollar to the Rupee was 61.11 compared to 62.96 in Q2 FY2014. Average exchange rate for the Philippine Peso (PHP) to the US Dollar changed from 43.86 for the quarter-ended September 2013 to 44.07 for the quarter-ended September 2014.

On a year-to-year basis, the Rupee has appreciated 2.9% against the US Dollar while the Peso has depreciated 0.5% versus the US Dollar. The Rupee has appreciated 8.4% against the Canadian Dollar. It may be noted that around 18% of HGS revenues are billed in Canadian Dollars.

The performance of the Company in terms of origination of business from various geographies was in line with our expectations. In Q2 FY2015, US accounted for 63% of the total revenues as compared to 60% for the quarter-ended September 2013. Share of Canada has dropped from 23% to 18% while share of UK and Europe stood at 11%, as compared to 9% for the quarter-ended September 2013. For the current quarter, the balance 8% was contributed by India. Of the total contribution from India, around 6% came from the India CRM business while the remaining 2% came from the HRO business.

The increase in share of US originated revenue is primarily driven by healthcare. The contribution of UK and European operations were driven by improvement in demand scenario and addition of new clients, particularly in the public sector and consumer sectors. While the India CRM business grew by around 8%, the HRO business grew by around 20%. Overall share of India originated revenues has fallen due to faster growth in revenue generated in other geographies. Canada's contribution has declined due to seasonal downsizing of volumes from some of our clients. However, we expect this situation to change significantly in second-half of the fiscal year.

Strong growth in volumes from healthcare client has resulted in healthcare vertical accounting for about 34% of revenues as compared to 26% of the total revenues in the same period last year. This has been a combination of new client additions as well as growth in volumes from existing clients. Telecom and technology vertical contribution declined from 33% in quarter-ended September 2013 to 29% in this quarter. This decline is primarily due to softness in volumes from Canada and portfolio rationalization initiatives undertaken across geographies. Continued softness in demand from the consumer electronics business resulted in the share of overall consumer sector to drop from 17% in quarter-ended September 2013 to

13% in Q2 FY2015. The share of remaining verticals, namely banking, financial services, media, chemical and other sectors remain unchanged.

EBITDA for the quarter was Rs. 810 million and remained relatively flat compared to the EBITDA for the same period last year. EBITDA for the quarter factored the significant ramp up cost due to expansion in various facilities, primarily in Philippines and setting up of the UAE office. Despite this, we have been able to maintain our EBITDA margin at 11.5%, which is same as what we had in Q1 and we expect margins to improve in the second-half of the year.

Employee related expenses for the quarter increased by around 9% compared to the same period last year. This increase is primarily due to increase in total headcount across geographies, driven by expansion in facilities and salary revisions but employee cost as a percentage of sales has remained flat at 68% compared to the same period last year.

Our interest expenses for the quarter were Rs. 97 million compared to 98 million in the same period last year. Other income for the quarter-ended September 2014 was Rs. 43 million compared to Rs. 103 million in the same period last year. This drop of 58.7% is primarily due to lower exchange rate volatility in the current quarter as compared to the quarter-ended September 2013.

Our profit before tax for the quarter was Rs. 519 million as compared to Rs. 583 million for the same period last year. This drop in PBT is due to drop in other income and changes in the depreciation on account of the provisions of the new Companies Act. PAT for the quarter stood at Rs. 385 million, a decline of about 10% compared to Q2 FY2014.

We are comfortable with our current capital structure. Our total debt as of 30th September was Rs. 6,457 million, our cash and treasuries surplus at the end of 30th September was Rs. 5,779 million. This includes roughly around US$49 million of our Mauritius subsidiary HGS International, which is being placed in the form of bank deposits with Bank of Baroda, London. Net debt at the end of the quarter stood at Rs. 678 million. Our net worth at the end of the quarter ended September

2014 was Rs. 15,221 million. Based on the current debt levels, we have a very conservative leverage position of debt-to-equity of 0.42x and net debt-to-EBITDA of 0.2x.

For the six months ended 30th September 2014, cash flow from operations after change in working capital and tax payments was Rs. 1,417 million. Outflows on account of CAPEX and investments stood at Rs. 1,034 million. The business return on capital employed (ROCE) excluding the impact of treasury income and treasury surplus for the first-half of the year stood at 13.2%. If the impact of changes in depreciation cost on account of the new Companies Act 2013 is excluded, the business ROCE would improve to 13.8%.

Our total headcount as of 30th September 2014 was 28,120, an increase of approximately 1,300 employees over June 2014. There has been a large increase in the headcount in Philippines and India operations primarily to cater to the demand from the healthcare vertical. Of the total headcount, 60% are based in India, 19% in Philippines, 9% each in US and Canada, and the remaining 3% are in UK and Europe. Of the 16,800 employees based in India, around 8,300 are for the India CRM business, around 1,562 are for the HRO business and the balance are for India International and corporate functions. The total number of seats as of 30th September 2014 was 28,003, an increase of over nearly 1,500 seats over the quarter ended June 2014.

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

Moderator Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon Can you provide us with the seat utilization currently and how much we could expect in terms of CAPEX for another seat addition in Philippines?

Srinivas Palakodeti Our seat utilization varies from geography to geography and we would also have ongoing ramp ups. So I would like to say at the overall level, we are operating at near-optimum levels taking into account the ramp-ups.

Ravi Menon What is the CAPEX for the 900 seats in Philippines and when will that be completed?

Srinivas Palakodeti That is something which we are reviewing and trying to relook when the volume should actually come in. So right now, it is difficult to give you a sense but this is something which we are actually considering. And CAPEX could be in the range of about US $ 8 million.

Ravi Menon Do you have medium term margin and target, and after exit of unprofitable accounts, how much margin expansion could we expect?

Srinivas Palakodeti Obviously, we expect margins to improve but we do not give guidance. So I would not be able to say anything beyond that.

Moderator Thank you. The next question is from the line of Ruchi Burde from Emkay Global. Please go ahead.

Ruchi Burde Just wanted to get a sense of first of all - could you detail your outlook on business from healthcare?. Second thing is we have seen HGS along with some of your other peers make acquisitions in the last three-four years. Do you think acquisition still remains an important tenet of your growth strategy or if I gather correctly from your commentary, it appears that your pipeline is reasonably strong currently and hence are you more confident about focusing on organic growth in the medium term?

Partha DeSarkar I do not know whether this question is in the scope of an Earnings Call but I will try to answer this. We have not really done any substantive acquisition after 2011. Only small ones have been done.

Ruchi Burde Okay. But you have had a combination of both inorganic plus organic growth over the last few years. Just trying to understand, do you think your current set of service offerings or focus verticals are good enough for you to take you to the next level.

Partha DeSarkar That is why I was trying to say our last substantive acquisition was done only in 2011… after that, we have not done anything substantial. So, most of the growth that came post 2011 is organic growth. There have been small acquisitions done and they are very small actually. So whatever growth that you have seen since 2012 onwards till today has been mostly on account of organic.

Ruchi Burde And if you can talk about in detail about what are you seeing on ground in healthcare and how much of business essentially is provider versus payers?

Partha DeSarkar Healthcare business is our most exciting vertical... the vertical that we are focused on and the vertical that we expect to grow the fastest. If you compare the healthcare vertical growth versus last year, the growth was about 38%. With the healthcare reform, the clear segregation in provider and payer is becoming a little diffused. The fact is that we have a big payer practice while the provider practice today is much smaller but we do a lot of services for providers. Even though the end-client may not be a provider, we do service a lot of providers. So what I am trying to say by this, is t that a clear delineation between who is the payer and who is the provider is gradually going away because of the healthcare reforms. Many payers are actually buying off providers network to manage healthcare delivery cost.

Ruchi Burde And if you talk about the medium-term margin trajectory for the Company as a whole?

Partha DeSarkar We generally do not give forward guidance. If you look at the way our margins have been historically, the second-half of the year has been better than the first-half. It's been like this across almost all the years and we would expect it to be similar going forward as well.

Moderator Thank you. The next question is from the line of Naresh Kataria from Money Curve. Please go ahead.

Naresh Kataria My question was on the employee addition. I see that there has been a 1,500 employee addition. Have the margins dropped because of these additions? As far as I understand, when we take on employees, they are on bench initially or in training. Is that significant and what should be the trajectory of utilization? I think you mentioned that you are optimally utilized but has the utilization dropped because of this addition of new employees and could that be reversed in the coming quarters? That's one thing I would like to know.

Srinivas Palakodeti Between June and September, we have added about 1,500 employees. In our business, we do not have people on bench. So these are people who are being added to the quarter and these people are on training for new processes or for new volumes, which are coming up as we go into our busy season of Q3 and Q4. So we do not have the concept of bench.

Naresh Kataria You mentioned about ramp-up cost which happened in this quarter. Is that ramp-up cost due to infrastructure or is it people related ramp-up cost?

Srinivas Palakodeti It is a combination of both. If we add a new center, you will have costs like your rent, AMC for computers, housekeeping… And second will be people, who are on training or who have just finished training, and it will take some time to perform at the optimal levels.

Naresh Kataria Sure I understand how IT or IT services works. These are P&L expenses. It is an ongoing part of your business that as you grow, you need to add infrastructure and people. So I am slightly unsure as to why we have a drop in margins due to this, because this is part of your evolutionary growth cycle. As you grow, you are going to have to ramp up places, people and that would have an ongoing impact on margins. So am I missing something? Are we planning for some big growth, which we have done earlier, that we have a significant kind of impact on margins due to this ramp-up?

Partha DeSarkar We have seasonality in our business, which means that second-half of the year is stronger than the first-half. Because of this seasonality, we have to hire people in the first-half to be able to produce revenues in the second-half… that is what we are referring to. So what you are seeing is the margin contraction because of the manpower cost of people, who are in training. As we start getting into quarter three and quarter four, they will be revenue generating resources. The utilization will improve and that will help in improvement of the margin in the second-half of the year.

Moderator Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain One question on the consumer side, you mentioned that you are seeing ramp downs in your existing clients and second, you also mentioned that you have won some large accounts from the consumer side. Should we expect this run rate to stabilize from here or are there still few quarters left before we see an uptick again in the revenues from consumer segment?

Partha DeSarkar We believe that the worst is over so far as the consumer durable segment is concerned. Whatever ramp downs were to happen have already happened. Whatever new businesses or new logos we win will only result in rampups of these clients. But because these will be new startups, the speed of ramp up will be a little slower and it will take us sometime to fill up some of the ramp downs that have happened from our older clients.

Mohit Jain Okay but on sequential basis it will be an uptick.

Partha DeSarkar Yes, I think the worst is behind us.

Mohit Jain This time in the notes, you mentioned there is a revaluation in the useful life of assets and hence, there is a benefit that you got on the depreciation side. And then there was a negative element which was due to the Companies Act that got implemented last quarter. If I look at it from a YoY basis, your depreciation is still flattish compared to what you have done in Q2 FY2014 whereas we would have expected an increase due to the Companies Act.

Srinivas Palakodeti Yes, so let me put in different way. Let's take it on six months basis - my depreciation for six months ended September 13 was about Rs. 43 crores. Now what has happened is that there is an impact of about 5.65 crores on account of the new Companies Act. If I remove that, then the depreciation would have been Rs. 45.75 crores i.e., Rs. 51.4 crores minus Rs. 5.65 crores. So a like-like to comparison is basically between Rs. 43 crores and say Rs. 45.75 crores. That is the extra depreciation which has come because of extra CAPEX. Revaluation is because you have reassessed the value and the life of the assets, that is really excess depreciation in a sense provided in the first-half. So, that is an impact of Rs. 3.08 crores.

Mohit Jain 3.08 crores?

Srinivas Palakodeti Yes.

Mohit Jain Benefit you have got in this quarter?

Srinivas Palakodeti you should see that because we have sort of provided excess depreciation in the first quarter… so, that is only change between Q1 and Q2.

Mohit Jain On a sustainable basis, you should look at Rs. 26 crores sort of a number. Similarly on taxation, you had some benefit in this quarter?

rinivas Palakodeti Correct. We have provided for some excess tax in the quarter; once we are filing the returns, we will look into it and to the extent excess tax has been provided and to be reversed.

Mohit Jain So excluding that, your tax rate has been closer to 30%.

Srinivas Palakodeti Yes probably 27-28%, you know that has been our tax rate broadly.

Mohit Jain And should we assume the same number for the full year is it?

Srinivas Palakodeti Yes, that's it.

Moderator Thank you. The next question is from the line of Jagdish Bhanushali from Florin Tree Advisors. Please go ahead.

Jagdish Bhanushali One question comes to me is that the healthcare is a higher margin business compared to the consolidated that we report? The question is we are optimally utilized and as the healthcare segment grows its share, I wanted to check if our gross margins are not growing YoY.

Srinivas Palakodeti There are two things. The growth is happening but there is impact from the cost of ramp ups present. You should probably wait for the full year to flow through to see the overall impact.

Jagdish Bhanushali It is fair to assume that the gross margin would expand as well in coming two quarters?

Srinivas Palakodeti What we have said is traditionally, this is the pattern which you will see almost all of our years; Q3-Q4 will show better margins than Q1 and Q2.

Jagdish Bhanushali Okay and the second thing I want to ask is on the Obama Care. How do we see if the Obama Care does not go through completely or as we are seeing the Republicans are getting a bigger share now… so what risk do we see in the healthcare segment now?

Partha DeSarkar The little I could say would be conjecture right now as this is a recent development as of last week. We don't read too much in that so far as the healthcare thing is concerned. The objection that they had on healthcare is way past the stage where they can actually change anything.

Jagdish Bhanushali And the other important question is on the debt side. Our debt part is being increased, in spite of having a decent amount of cash flows. So just wanted to have a sense where is that coming or going actually?

Srinivas Palakodeti The debt is in geographies like India, US and Canada whereas the cash is on the balance sheet of our Mauritius subsidiary. So it is sort of compensated on the overall level. While the debt levels have increased in the current quarter compared to June, you must bear in mind our working capital cycle. Q4 traditionally is a strong quarter and you know the collections will come through in Q1 of this year, and hence you will have overall lower working capital utilization by the time you reach June. Q2 is a leaner quarter and Q1 is also lean… so the impact of the working capital cycle is leading to higher working capital limits being utilized during Q2. Also bear in mind in the process, we have had one final dividend and an interim dividend. Both these dividends have been outgoing Q2.

Jagdish Bhanushali Okay. So is it fair to say that the dividend outgo is coming up and the debt level is going up?

Srinivas Palakodeti No, I am saying that it is primarily a working capital utilization issue, which is why the debt levels have gone up from June to September.

Jagdish Bhanushali There has not been an incremental CAPEX in terms of adding of fixed assets...

Srinivas Palakodeti No, no there would be CAPEX. You know we are saying ramp cost; obviously we have to add new faculties and CAPEX is related to that.

Moderator Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon Thank you for the opportunity again. You know I am just looking at the employees number in India and the year-on-year increase is about 13% but if I look at the increase in international revenue from India, that number is double at 26-27%. Could you help in reconciling this… Are you getting a rate from some of our existing customers, what is driving this growth?

Srinivas Palakodeti Ravi, we have a large number of employees in India. There is a mix of people who are working on the domestic process as well as people who are working on international processes, and the revenue per employee varies significantly between

India Domestic and India International. What has been happening is we have actually reduced the India headcount as we were consolidating our India domestic business. So the headcount on the India domestic side is decreased while the headcount on the HRO part and the India International part has increased.

Moderator As we have no further questions, I would like to hand the floor back to Mr. Partha for closing comments. Over to you sir.

Partha DeSarkar Thank you very much for joining us on this Earnings Call and before we end, I would like to also mention that our investor and analyst day meet is planned on December 3, 2014 at the Palladium Hotel in Mumbai. Detailed invite will follow soon.

Srinivas Palakodeti We look forward to meeting you at the Investor Meet and to interact with you when our next quarter results come out. Thank you all for taking time out for joining on this.

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

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Note: This transcript has been edited to improve readability