Hinduja Global Solutions
Q2 FY2017
Earnings Conference Call

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Management: Mr. Partha DeSarkar – CEO

Mr. Srinivas Palakodeti – CFO

Mr. R. Ravi – VP, Investor Relations

Churchgate Partners

Moderator: Good Day, Ladies and Gentlemen and welcome to the Hinduja Global Solutions Limited Q2 FY2017 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to R. Ravi. Thank you and over to you, sir.

R. Ravi: Thank you, Mallika. Ladies and Gentlemen, I am R. Ravi, Head, Investor Relations at HGS, wishing you all a very good evening and a warm welcome to the second quarter and first half FY2017 Post Results Conference Call.

To discuss the quarterly results, I am joined by Mr. Partha DeSarkar – the 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 including those related to the future financial and operating results, benefits and synergies of the company strategies, future opportunities, the growth of market of the Company's services and solutions. Further, I would like to mention that some of the statements made in today's conference call maybe forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to our 'Earnings Presentation's Page 2.'

Now, I would like to invite Mr. Partha DeSarkar to provide his perspective on the performance of this quarter. Over to Mr. DeSarkar.

Partha DeSarkar: Thank you, Ravi. A very good afternoon to everyone and thank you for joining us on the call today to discuss our second quarter FY2017 results and performance. We hope that you have had an opportunity to review our presentation and financials, which are also available under the 'Investors' section of our website.

I would like to start with an overview of the financials for the quarter followed by operational highlights; after that I will hand over the call to our CFO, Srinivas Palakodeti, to discuss the financial performance in detail. We will then open the call for the Q&A session.

Traditionally, Q2 has been a soft quarter for HGS in terms of revenue. Profitability is soft too on account of hiring of employees for the open enrolment season for the Healthcare business and for the festive season in the US market. In the Q1 earnings call, we had mentioned that Q2 revenue growth and profitability would be soft and the results are in line with our expectation.

In Q2 of FY2017, we delivered revenue growth of 14.7% year-on-year at Rs. 9,052 million. In constant currency terms, the organic revenue growth was 10.6%.

For the first half of FY2017, we posted year-on-year revenue growth of 18.8% led by inorganic growth of about 4.6% and FOREX impact of 0.7%. In constant currency terms, the growth was 13.5% year-on-year. EBITDA for Q2 was up by 13% year-on-year at Rs. 964 million and EBITDA margin for Q2 was 10.7%. Excluding the one-time costs related mainly due to a client exit in Europe, the EBITDA margin for the quarter would have been 11% and the EBITDA growth would have been 16.5% year-on-year. We reported net profit growth of 18.5% on a year-on-year basis to Rs. 374 million. We saw a loss of Rs. 97 million in Q2 of FY2017 against the gain of Rs. 54 million in Q1 of FY2017 on account of foreign exchange variation, the details of which will be available with Pala.

The second half of the year typically sees an upswing in revenue and profitability for HGS. Based on the trends that are currently available, we expect EBITDA margins of H2 FY2017 to improve; hence on a full year basis, we expect improved margin in FY2017 as compared to FY2016.

We expect to incur capital expenditure of approximately Rs. 1,500 million to Rs. 1,600 million in FY2017.

Going into more details of our Q2 performance, as expected, profitability and margin expansions were negatively impacted by the below factors: The quarter had a one-time cost impact of GBP 337,000 related to a client exit in UK; rapid ramp ups in geographies such as India, Jamaica and Philippines to prepare for the holiday season and for open enrolment for our Healthcare business.; low capacity utilization in a couple of centers in North America.

But if you look beyond these factors, we see the demand for our services only rising. One of the key reasons for the improvements with EBITDA margin in the previous two quarters was an increase in offshore and Healthcare businesses. We continue to make strong progress on this. Our Healthcare vertical posted robust growth even in this quarter. The vertical’s contribution to overall revenue has gone up to 45% in Q2 FY2017 as compared to 43.4% in the previous quarter.

With respect to the offshore/onshore breakup, contribution from offshore/nearshore has increased to 46.2% in Q2 FY2017 as opposed to 44.5% in Q1 FY2017.

The India International business continues to show strong growth, led by the Healthcare vertical. In Q2, HGS celebrated 10-years anniversary with a leading healthcare client, who continues to expand our business rapidly. HGS Philippines continues to show traction in business expansion and growth. We inaugurated our 9th delivery location in Philippines. We began support for a new client engagement and lines of business from consumer electronics and fitness products clients. We are preparing for open enrolment season for Healthcare on an ongoing basis with a focus on driving growth in the existing Healthcare accounts.

Jamaica clearly is a standout geography at HGS currently, recording excellent growth in the quarter and ramping up programs. With all three sites running at 100% capacity, we plan to set up a fourth center in Q4 to cater to the burgeoning demand from clients for this near shore destination. We are already at an oversold situation in Jamaica. We do not have seats to deliver projects that are already sold.

On the people front, total headcount at the end of September 2016 stood at 43,793. This is a net addition of almost 3,000 people in the quarter, primarily in India, Philippines and Jamaica, which now have a headcount of 28,884, 7,410 and 1,250, respectively. We have also improved overall seat utilization from 82% in the June quarter to 85% in Q2.

For the half year ended September 2016, HGS generated positive cash from operations after working capital changes of Rs. 2,264 million. During this period, we have seen substantial improvement of working capital management. This combined with the CAPEX of Rs. 943 million has led to a first half free cash flow by EBITDA of about 67%. We have also reduced debt and improved liquidity ratios… more details of these will be covered by Pala in his section.

Considering the need to conserve cash, the board has recommended an interim dividend of Rs.2.50 per share.

Let me now share some further business highlights of the quarter in the markets where we operate: We will start with North America region including both US and Canada. We continued to capitalize on prevailing opportunities in the region in Q2. It was business as usual in the US operations, which posted growth across verticals especially Healthcare. Key win in Q2 was a new logo in the Consumer Electronics vertical. HGS has launched a technical support program from Peoria to support the client's smart application that supports operations of home theatre display and audio products from anywhere in their home. While our Canadian operations had some headwinds in the form of hiring issues, we expanded engagements with existing clients in Telecom and public sector verticals. The outlook for North America region continues to remain promising. We have a healthy pipeline with engagements across verticals primarily consumer products, media, public sector, healthcare, energy and technology. As mentioned in the previous quarter's call, we have some excess capacity in US and Canada and we are focusing on winning additional volumes from new and existing clients for optimal use of capacity.

Coming to UK, the UK operations posted strong year-on-year revenue growth led by peak period of two of our UK public sector clients but the closure of one of our CPG client programs was completed in August 2016 and had a one-time cost of closure of GBP 337,000. In Q3, we will be implementing programs for two new clients – one in Selkirk and the second a new logo in the Food & Beverage segment in Chiswick. Overall depreciation of the GBP and the exit of a key client will have some ongoing challenges on our UK operations for the rest of the year.

Coming to India Domestic: India Domestic revenues consolidated across legacy and acquired businesses posted good growth even though the volume softened in Q2 compared with Q1. A Telecom client showed robust growth in the quarter on FTE business, with two major queues adding headcount. An eCommerce client experienced continued volume growth in Indore and has expanded operations in Mysore with both Voice and Chat operations. HGS' Digital arm, HGS Interactive won a contract to develop and manage an eCommerce portal for a leading jewellery brand in India in the quarter. Our HRO/ F&A business saw traction, winning 7 new clients across BFSI, Consumer Products and Energy verticals.

HGS continues to make inroads into new logos across verticals: We signed four new logos for BPM business and seven for HRO/ F&A business in Q2. This takes our overall active clientele to 185 and 607 for BPM and HRO/ F&A businesses, respectively.

From a demand perspective, we see an evolving need for digital transformation related activities across vertical. We believe that service providers who can make a bold bet with innovative digital solutions will capitalize on these opportunities and gain a competitive edge in the marketplace. HGS' early investment with the launch of our DigiCX Suite of Services, our scale and end-to-end capabilities are helping us make clear inroads. Clients are appreciative of the differentiated value that we offer them.

I would also like to call out an emerging trend in today's BPM industry -- where the traditional people-centric model is evolving into a complementary model of people and automation software, including robotic process automation and analytics, to deliver noiseless service. This new model is giving rise to increased productivity and ability to reskill people towards higher value roles. HGS is making significant progress in this area, and is working with over five clients across Healthcare and Financial Services sectors. The journey is still nascent, but I believe that there is a bright future ahead for these new age services.

Overall, Q2 broadly saw good results as per our expectations. During our Q1 earnings call, we had stated that the challenges on empty seats in North America has depressed our margins. We are happy to share with you that based on volumes from existing clients and new logo wins, we expect seat utilization in

North America to improve significantly for the second half of the year. While we do expect challenges of revenue and profitability in the UK operations to continue, we see the improved seat utilization and profitability of North America, benefits of open enrolment for Healthcare vertical and the festive season in the Consumer vertical to result in an improved performance in terms of revenue growth and profitability in the second half of the year.

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

Srinivas Palakodeti: Thank you, Partha. Good afternoon, everyone and welcome once again and thank you for joining us on our Q2 Earnings Call.

We continue to grow and have recorded a year-on-year growth of 14.7% to report revenue of 9,052 million in Q2 of FY2017. You may recall that HGS had acquired an India CRM business effective 1st September 2015. So revenues for the second quarter of FY2016 had one month of revenue of the acquired business while Q2 of FY2017 has the full three months of revenue of the acquired business. So taking this into account, out of the revenue growth of 14.7% over quarter ending September 2015, there was a volume growth of 10.6%; 3.5% on account of the timing difference of the acquired India CRM business and 0.6% on account of exchange rate variation. The average rate of USD to INR for the quarter was Rs. 66.75 as compared to Rs. 65.27 for the quarter ended September '16, a change of 2.3%. The average exchange rate of the Filipino Peso to the US dollar changed from PHP 47.34 a year ago to PHP 46.36 for the quarter ended September '15. This resulted in a change of 2.1%. Compared to Q2 of last year, the Indian Rupee depreciated by around 3.3% against the Canadian Dollar and appreciated 12.12% against the British Pound. For a mix of this business, there was an overall net depreciation of 0.6% of the Indian Rupee against the mix of currencies. Offshore/nearshore revenue accounted for 46.2% of the total revenues in Q2 of FY2017 as compared to 44.5% in Q1 of FY2017.

Moving to revenue origination from various geographies: US accounted for 65% of total revenues as compared to 67% in the same period last year. The share of Canada originated business dropped from 13% in Q2 of FY2016 to 11% in the current year. Business originating from UK and Europe remain flat at 10%. Share of India originated business increased from 10% in Q2 of FY2016 to 14% in Q2 of FY2017. The increase in share of growth is primarily due to the acquired India's CRM business along with growth in volumes from existing clients of the legacy India CRM business as well as the growth of the HRO and the Payroll business. Of the total India originated business, 11% came from the CRM business and the balance 3% came from our HRO and Payroll Processing business.

In terms of revenue contribution by verticals, Healthcare continues to be the major contributor and accounted for 44.6% of total revenues during the quarter as compared to 42% in Q2 of FY2016. The contribution of the Telecom and Technology vertical declined from 25.2% in Q2 of FY2016 to 23.9% in Q2 of FY2017. Share of Consumer vertical declined from 13.7% in Q2 of FY2017 from 14.7% in the same period last year. Share of revenues from the BFS vertical remain flat at 7% and the balance 10.7% came from the other verticals. In Rupee terms, share of Healthcare vertical increased 22%, share of revenues of Telecom and Technology increased 9%, Consumer increased 7% and BFS around 17%.

Our consolidated EBITDA for the quarter was Rs. 964 million, representing a growth of 13% compared to the same period last year. EBITDA margin of 10.7% was driven by increased offshore mix and improved performance of the India Domestic business. The employee-related expenses for the quarter increased 15% to Rs. 6,067 million; As a percentage of sales, it remained flat at around 67%. Other expenses for the quarter were Rs. 2,021 million as compared to Rs. 1,758 million in Q2 of FY2016. As a percentage of revenues, we remained flat at 22%. Our interest expense during the quarter was Rs. 111 million as compared to Rs. 108 million in the same period last year. Of the total operating expenses, rent accounted for 20%, legal and professional charges 12%, connectivity cost 11%.

Our other income for the quarter was Rs. 12 million as compared to Rs. 54 million in the same period last year. Profit before tax for the quarter was Rs. 492 million, an increase of 4% with the margin of 5.4%. Our PAT for the quarter increased 18.5% to Rs. 374 million leading to PAT margin of 4.1%.

It may be noted that on account of foreign exchange rate variations, we recorded a loss of around Rs. 50 million in Q2 of FY2017 as compared to a profit of Rs. 54 million in Q1 of FY2017. This variation has obviously had an adverse report on our reported PAT.

Our improvement in profitability coupled with better working capital management has helped us reduce our debt during the quarter by Rs. 530 million and overall of Rs. 1,048 million during the first half of FY2017.

Gross debt as at 30th September 2016 stood at Rs. 7,464 million. During Q2, our cash and treasury surplus increased by Rs. 348 million and the overall amount stands at Rs. 4,920 million as at 30th September 2016. The cash and treasury surplus includes $36 million of a Mauritius subsidiary HGS International. Taking into account the cash and treasury surplus, net debt as at 30th September stood at Rs. 2,544 million.

Our net worth at the end of the quarter was Rs. 12,191 million. Based on the current debt levels, we have a debt-equity of 0.61x and net debt to trailing 12-

months of EBITDA of 0.67x. Gross debt to trailing 12-months EBITDA has fallen to 2x as compared to 2.62x a year ago.

For the half year ended 30th September 2016, cash flow from operations and operating profit before working capital changes came in at Rs. 2,264 million and cash outgo and CAPEX for the six months ended 30th September was Rs. 943 million.

Business return on capital employed computed after excluding treasury income from the numerator and the treasury surplus from the denominator came to 13.3% for the quarter ended September '16 and 16.6% was the first half of FY2017.

At the end of the quarter, we have headcount of 43,793, of whom 66% are based in India, 17% in Philippines, 8% in US, 5% in Canada and remaining 4% in UK. Of the 28,884 employees in India, around 17,500 are in the CRM business, 2,000 are in the HRO business and the balance are primarily on the India Offshore business. The increase of 2,855 over 30th June is due to increase in employees in India, Philippines and Jamaica. The total number of seats as at 30th September 2016 was 39,275, an increase of 960 seats compared to June '16, this increase in seat capacity is primarily in India and Philippines. We do have some empty seats in North America and UK as of 30th September but as Partha explained, we expect the utilization of these seats to improve in the remaining half of the financial year FY2017.

Before I conclude this section, I would like to add that we are planning our Analyst and Investor Day Meet on December 8, 2016 in Mumbai. A detailed communication in this regard will follow.

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

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Aman Jain, who is an Individual Investor. Please go ahead.

Aman Jain: I had a couple of questions: First, you guys mentioned that the total seat count is 39,275 and earlier you mentioned the total headcount was 43,793. I am not able to figure out what is the difference of this 4,500?

Srinivas Palakodeti: The total number of seats is an absolute amount of seats in the physical sense. Depending on the nature of work, we have some work which we do one shift a day, some we do two shifts, some we do three shifts. But even within that, you would have different staffing levels. So typically, if you do beyond regular eight hours work, you would have employees at a higher level than the total number of seats.

Aman Jain: So basically, in our offices we have 39,275 seats, is that right?

Srinivas Palakodeti: That is the total number of seats available. There could be some empty seats as we have mentioned in the call which we are hoping to fill up or there could be seats in certain areas where we do not want to do a particular line of business, so they could be empty. That is the way number of seats you should look at.

Aman Jain: Out of the US revenues which is 66% of total revenues, how much is onshore, how much is nearshore, how much is offshore?

Srinivas Palakodeti: Out of the total revenue which we have, 65% originates from US and about 28% is delivered locally, so the balance 37% goes to locations like India, Philippines and Jamaica.

Aman Jain: So basically, roughly we can say 40% of the US revenues come from onshore, rest is off or near whatever?

Srinivas Palakodeti: Yes, that is right, 28% and 65%, are the numbers.

Aman Jain: You were already mentioning that the fill rates in US are quite low. That number is what?

Srinivas Palakodeti: We had about 800 empty seats odd in Q2, which we expect to fill up because of increased volumes from existing clients and some new logo wins during Q3 and Q4.

Aman Jain: So how many seats we have in US in total?

Srinivas Palakodeti: In US we had 3,400-odd seats.

Aman Jain: I am trying to understand your business. Is it not more realistic if we are looking at things like - we have 100,000 sq.ft. available, out of that occupancy was 80,000 sq.ft. while 20,000 sq.ft. is still available. Why are we not reporting in that manner? It should be that we have x number of employees and for them this is the work available for them.

Partha DeSarkar: Unlike an IT company, we do not carry any bench. So whoever works for us is a fully productive employee or an employee under training. So far as utilization is concerned of employees that we have, it is still typically going to be in high 90s we could leave out the people who are in training. We do not carry any bench and that has been true of us all along. The concept of the bench in terms of staff utilization of fill ratio, which I think you are trying to say is more an IT industry norm, it is not BPM industry norm, if I am getting your question correctly, for us the bench is zero. Either people are on training or they are working. We do not have people who are fully trained, fully productive, waiting for work, we do not have that situation.

Aman Jain: Is that by design or is that the thing which happens with our industry?

Partha DeSarkar: You will find that the bench concept is more of an IT industry concept, it is not BPM concept. You may end up in a situation that will have 100 people and work reduces for some reason like seasonality. If that happens, we redeploy the people to some other places or we hire part-time people so that when the work reduces, we can contractually let go of those people without carrying them on bench.

Aman Jain: How are you guys reading Trump effect… are you seeing any negatives coming out of it, any positives coming out of it since you have a large US business?

Partha DeSarkar: Actually, we are quite big onshore, so we are not unduly concerned about this thing. As you said, it is too early to comment. The fact that we have good onshore presence, we believe differentiates us from other players who have a heavily offshore presence, but I would only caution by saying it is just too early to comment on what the poll plank would convert to actual business impact.

Aman Jain: So coming back to my earlier question, you said out of 65%, 28% is onshore right in US?

Partha DeSarkar: Yes.

Aman Jain: Is that the revenue or is that the staffing?

Srinivas Palakodeti: Revenue.

Aman Jain: EBITDA from US would be similar to what we enjoy globally or they would be higher or lower?

Partha DeSarkar: No, we do not disclose that number.

Aman Jain: Secondly, while comparing similar businesses, they are listed in India or globally, so if I take someone like Infosys BPO, if I take Firstsource Solutions or Allsec or eClerx, typically, their margins are in the range of 15-20% EBITDA and for us the number is still in low teens or probably 10-11%, last year it was much lower, I know there was a problem last year. Should we think that our business would reach a level where other global majors or Indian majors are?

Partha DeSarkar: You took a wide variety of players, so there are people that you named who have got margins very high like an eClerx; On the other hand, you got Firstsource who has margins which are comparable to us, and so there is a big range there. Margin by Firstsource is probably slightly better than us, I do not think it is dramatically better than us. So in BPM business, in the kind of business mix that we have, which have the fair amount of business coming and delivered onshore, you will find that the margin profile amongst players vary depending on the extent of their onshore and offshore revenue. We have an onshore heavy revenue mix, which probably results in a lower number and we have talked about this in our call that is we have deliberately done this to increase the size of the funnel but eventually the plan is to move as much of that possible to an offshore destination. So as that ratio improves, the margins will improve and that is what you are seeing in this year. If you see the margin movement in this year, that is driven by the fact that we have been able to pull the offshore lever well.

Aman Jain: So what would be your aspirational number in terms of margin over the next two-three years… like should we expect a number which is at least similar to what eClerx enjoys…I am not talking about Infosys BPO levels?

Partha DeSarkar: Again, I have cautioned you to give that kind of a benchmark, eClerx business is totally different from us, the parts of business which have EBITDA higher than eClerx but on an average it works out to the number that you see. We do not want to give you a number because we do not want to give guidance but we believe we have visibility for improving EBITDA numbers.

Aman Jain: Do we have aspirational number which we are working towards?

Partha DeSarkar: No, I cannot give you a single number, all I can tell you is we are working on improving it from where we stand and we will end the year far better than what last year was.

Aman Jain: If I look at Firstsource, they have a similar EBITDA margin structure even you agreed to this, but if I look at the revenue per employee, our number is much-much lower, they are generating a similar revenue with less than 25,000 employees and we have 40,000-45,000 employees and almost a similar, in terms of revenue per employee, we are 60% of them. What explains this difference…?

Partha DeSarkar: It is a business mix issue. Our revenue per employee for our India domestic business is quite low and therefore that pulls the number down. If you look at our 43,000-odd number, about 17,500 of those 43,000 numbers actually work in India domestic and therefore the average revenue per employee comes down because of that.

Aman Jain: I can guess that would continue, right?

Partha DeSarkar: No, we are focusing on growing our non-India book of business which is what a large part of future growth will be. As that improves, that number will go up.

Srinivas Palakodeti: Just to clarify, we have close to 29,000 employees in India; 17,500 which is a big number, are for the India CRM business.

Aman Jain: So my guess would be that for them, this number would be much lower or probably they would not be even working for Indian clients?

Partha DeSarkar: If you have India business, it cannot be as big as ours.

Aman Jain: On Colibrium, so how exactly are we seeing that business developing and to whom can we compare that business with… who would be a typical competitor in the Colibrium business in what we have and who would we be pitching against?

Partha DeSarkar: It is a platform play. The name that you will recognize most is TriZetto.

Srinivas Palakodeti: It is a business which was acquired by Cognizant a couple of years ago.

Aman Jain: Are we seeing this Colibrium business developing in years to come?

Partha DeSarkar: I think it is growing at a reasonably good rate. So we are encouraged by what we are seeing in Colibrium.

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

Subhankar Ojha: Wanted to understand directional from you exactly, so what is the impact of the reversal of Obamacare… there has been so much talks in the newspapers and all and will it hurt us badly if it is getting implemented?

Partha DeSarkar: It is too early to comment on that, those have been election promises, whether they will translate into reality, we have to see. Frankly, Healthcare has grown even before Obamacare came in. Obamacare that essentially talks about providing insurance for the uninsured, is one angle. The other part of it is Affordable Healthcare Act. I do believe that affordability of healthcare is going to be important, so healthcare cost pressures are going to continue. I think what will be the impact of this and whether election plank statements will actually determine future policy, we have to wait and see.

Subhankar Ojha: If you can quantify, what is the revenue contribution in terms of percentage of revenue - maybe from this particular plan Obamacare, and how has it been helping us because Healthcare has been growing the higher rate compared to the overall growth?

Partha DeSarkar: The overall healthcare number is already disclosed. How much of that is contributed by Obamacare? That number is just not available; we do not track it that way.

Srinivas Palakodeti: This is the business we have been doing for last 16 years. So we do work on a range of activities like revenue cycle management, Health Insurance companies etc. So you need to look at it from that perspective.

Moderator: Thank you. The next question is from the line of Rajiv Kothari who is an investor. Please go ahead.

Rajiv Kothari: My question is regarding policy for the future. Most of the growth in the past has been inorganic. Is that the path we are going to take even in future or are we now having a strategy of planning for a larger amount of organic growth?

Partha DeSarkar: I would like to say that our last big inorganic acquisition was done way back in 2011. After that we have not really done anything big, after that we have done niche acquisitions for specific capabilities, very small acquisitions less than $15 million. So I do not understand what makes you say that our track record has only been inorganic growth.

Rajiv Kothari: Substantial part, that is what I meant?

Partha DeSarkar: No, our last acquisition was done in 2011, after that if you look at it in a year, we have not really done anything which is more than $10-15 million… so on a revenue base of $500 million and acquisitive growth of $15 million, just about a small fraction of our growth comes from inorganic.

Rajiv Kothari: No, I did not mean by way of investing, I meant by the number of seats and the turnovers which was got facilitated like last year and so on?

Partha DeSarkar: Let us talk about last year; last year we did two acquisitions – one was Colibrium…

Srinivas Palakodeti: That is enterprise value of about $18 million.

Partha DeSarkar: For a business which was about $15 million. Then we acquired the Mphasis' business for about Rs. 17 crores, for a book of business which was about Rs. 140 crores. So not sure how you are computing your numbers.

Rajiv Kothari: No-no, I do not doubt the quality or the logic behind the acquisition, definitely they were worthwhile and when you went into it, you definitely realize the gains which you saw. But I am enquiring about the future -- are we going to increase market share? …Is the market expanding substantially by itself? So even if we keep the market share at the same level, we keep getting more business, how do we grow in future… what is the management path out there?

Partha DeSarkar: On an organic basis, our growth rate has been about 10-11% year-on-year on constant currency terms. Anything that is on top of that is essentially inorganic which will be another 2-3% at most, not more than that. If you look at 13%, I talked about the fact that 13% is our constant currency growth as compared to half year last year. If you were to convert that in organic and inorganic, their components will fall about 10% and 3% approximately. Going forward also, our growth will continue to be focused on organic. The only inorganic that we will end up doing would be to acquire new capability in specific verticals that we are focusing on. So those will be really niche or boutique acquisitions as opposed to scale acquisitions and expensive acquisitions.

Rajiv Kothari: The other question is more like an enquiry and more generic…Is the overall pie growing substantially like 10, 12, 15% per year or are we increasing market share steadily?

Partha DeSarkar: This is a fairly fragmented market, the total size of the market based on whether you talk to Gartner or IDC, is about $160 billion and annual growth rate of that is about 5.5% or 5.6%. So market share of individual players are very small, nobody in this market has a large market share. If you look at our business per se, companies who have turnover in excess of a billion dollars in our industry would not be more than 10; it will be less than 10.

Moderator: Thank you. The next question is from the line of Shiva Rama Krishna from CRISIL. Please go ahead.

Shiva Rama Krishna: It seems like the tax rate has fallen to 24% from 30% last year. So what could be the reason?

Srinivas Palakodeti: There are two components -- we have businesses which are under SEZ or exempt zones. So there were centers which we started in India and Philippines and were in the process of ramping up, they are now running at a better capacity level and so you are getting more profits from that side plus there is also the element on the deferred tax, which is part of the tax line. So that resulted in an overall drop in the tax rate.

Shiva Rama Krishna: So going forward, this rate will be sustainable for how long?

Srinivas Palakodeti: The deferred tax always goes back to the issue of timing. I would think in the overall mix you should look at rates of 28% to 30%.

Moderator: Thank you. The next question is from the line of S B Bhaiya who is an individual investor. Please go ahead.

S B Bhaiya: My question is regarding your slide on leverage profile. You are showing a debt of Rs.7,464 million and whereas you are also showing a cash available of Rs.4,920 million, so cash availability as a part of the debt I think it is substantial, close to 70%. Any particular reason for retaining this much cash when you are having a debt portfolio also?

Srinivas Palakodeti: So the numbers which you have are the consolidated numbers, so that takes into account HGS, the company in India and all its subsidiaries. So as I mentioned, we have about $36 million, which is in the form of treasury surplus in the subsidiary of our Mauritius Company and that is money which we have kept aside for either organic growth like the way we have been growing in Jamaica or for making acquisitions. The debt is mainly in all the operating geographies like

India, US, UK, Canada, where we also get tax shelter, because tax rates are in the range of 20% to 30% in these geographies.

S B Bhaiya: But cannot there be a better utilization because $36 million what you said that converts to say about Rs.200 crores, right. You cross-leverage and you are on the one side paying the interest and the cash available I think is much-much lower. Is that a way that you can improve on that?

Srinivas Palakodeti: Clearly, it is treasury cash. So from a safety perspective, it has been deployed in such a way it is safe though the returns are low. But the thing is as I said earlier, it is being kept aside for future growth or any potential acquisition. While I could bring back the money to India, what would happen is there would be a tax on dividend, so the government would get about 17% of that. As per current guidelines, once the money comes in, everything should be converted into rupee. So if I have to send money out, then I also take the extra exchange risk. The one way to look at it is that the treasury surplus whatever be the rate is earning virtually tax-free interest income whereas the interest cost which is being paid on the loan are in much higher tax rate jurisdiction. So you are effectively getting a better tax yield on this.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Just wanted some clarity on how much the pound or euro depreciation would have affected our margins?

Srinivas Palakodeti: As I mentioned, the revenues from UK is small in a relative perspective, they constitute about 10% of our total revenues and these are all local delivered revenues, there is no offshore component there. So both my cost and revenues are in GBP terms. So the impact on profitability is primarily because of some one-time cost related to client exit of about £337k and whatever is the impact - As a point of illustration, if a year ago I was making let us say £100,000 of profit it would be like a crore of profit. If I make the same amount, it will now be about Rs.80 lakhs given it has gone up by about 20%. But from overall perspective, the impact on the GBP losing against currencies is more impacting on the revenue side than on the profitability side.

Ravi Menon: But your overheads are primarily India, right, so your SG&A remains pretty much fixed, so some leverage…?

Srinivas Palakodeti: SG&A is across all geographies, yes.

Ravi Menon: In the legal and professional charges, is there any one-off there, the 70 basis points kind of decrease year-on-year, so was last year we…?

Srinivas Palakodeti: There is nothing one-off as such because they get accrued over a period of a year. This may not be specific to a particular quarter. You should look at in overall level.

Ravi Menon: Anything else that you could call out for the year-on-year change in the others within the breakup of operating expenses?

Srinivas Palakodeti: If you look at what we are seeing, we are pretty much constant in terms of as a percentage of total expense, you see employee cost, our total expenses, they are pretty much at the same level as a percentage of revenues or percentage of cost.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Partha for his closing comments.

Partha DeSarkar: Thank you for taking the time to join us for our earnings conference call. As mentioned by Pala, we would hold an 'Investor Day' in Mumbai on 8th of December sometime in the evening. The details of that will be sent out very soon and we hope to see you again on investor day and look forward to meeting you again in our earnings call for Q3 sometime in the month of February. Goodbye.

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

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Note: This transcript has been edited to improve readability