



“Hinduja Global Solutions Limited Q2 FY 2018 & Half Year FY 2018 Post Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2018 and first half FY2018 Earnings Conference Call of Hinduja Global Solutions Limited. As a reminder, all participants' 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 entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramalingam Ravi – Head of Investor Relations and Vice President of Hinduja Global Solutions Limited. Thank you and over to you, sir.

Ramalingam Ravi: Ladies and gentlemen, I, R. Ravi, Head of Investor Relations at Hinduja Global Solutions wishing all a very good evening and a warm welcome to the Second Quarter FY2018 and the Half Year FY2018 Post Results conference call. To discuss the quarterly results and the half yearly results, I am joined by Mr. Partha DeSarkar 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's strategies, future opportunities and the growth of the 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 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 this quarter and the half year under review. Over to you, Mr. Partha.

Partha DeSarkar: Thank you, Ravi. Good afternoon everyone and thank you for joining us on the call today to discuss our second quarter and first half FY2018 financials and business performance.

We hope that you have had an opportunity to review our earnings press release and the reported financials which are available under the Investors Section on our website as well as in both the Stock Exchanges. As always, I would like to start with an overview of the financials for the quarter followed by operational highlights and after that, I will hand over the call to our CFO Mr. Srinivas Palakodeti to discuss the financial performance of the quarter and the review in detail.

We will then open up the call for the Q&A session.

To get going, traditionally HGS' Q1 performance is soft, with business momentum picking up from Q2 onwards, and FY2018 is no exception. Aided by growth led by our top 20 clients and new logos won in Q1, HGS posted a good performance in Q2. For the second successive quarter, we reported revenue growth of 6.5% year-on-year in constant currency terms to Rs. 9,426 million. In rupee terms, the revenue growth was 4.1% year-on-year in Q2 FY2018.

Some of the other factors that drove this growth include –

- All our geographies, except the UK, have done very well led by strong volumes.
- We continue to create impact on our healthcare and insurance clients with the vertical posting a 4.1% sequential growth and a 12.2% year-on-year growth in Q2.
- There were no adverse currency movements in Q2 as the INR to USD was flat at Rs. 64.48 over Q1. The INR to CAD and INR to GDP depreciated by 7.1% and 1.7%, respectively over the previous quarter.

Our ongoing initiatives in cost rationalization and improvement to operational efficiencies are showing results leading to reduced operating expenses. This along with better performances in Philippines, Jamaica and USA CET business, which comprises consumer, e-commerce and telecom verticals, and growth in onshore healthcare delivery ensured that the EBITDA margins expanded by 20 basis points sequentially and by 30 basis points on a year-on-year basis. EBITDA for Q2 was Rs. 1,038 million while the EBITDA margins stood at 11%.

The net profit was Rs. 534 million, a year-on-year growth of 42.6% and a sequential growth of 28.7%. CAPEX for Q2 stood at Rs. 433 million and Rs. 828 million for the first half of the year. We reduced debt levels by Rs. 247 million during Q2. Total net debt at the quarter ended 30th September 2017 was Rs. 657 million.

If I were to mention the first half of the year in perspective, growth in constant currency terms was 6.4% year-on-year; in rupee terms the growth was 3%. The sharp appreciation of the rupee against other currencies in Q1 FY2018 deflated the growth in H1 FY2018 over FY2017.

As a result, the EBITDA margins on a reported basis modestly contracted by about 30 basis points in H1 of this year compared to the last fiscal. The free cash flow to EBITDA factor, which was at 48% at the end of FY2017, has improved to 72% at the end of H1 FY2018.

Moving away from financials to the business highlights, I would like to mention to you that during Q2 FY2018, HGS signed contracts to expand businesses with 15 existing clients from across verticals, which are expected to add over \$9 million in FY2018 revenues. Since July 2017 till date, we have added four new clients across consumer products, transportation, telecom and media. The traction from RPA and DigiCX continued with HGS signing two engagements each in these solution categories. At the end of Q2 FY2018, HGS had 187 core BPM clients and 628 HRO and payroll processing clients.

We continue to invest in sales and account management and our focused approach is yielding dividends especially with the top 20 clients. In the last three quarters, the contribution from this segment has increased consistently due to better mining. During the quarter under review, we opened a new center in Bangalore while consolidating two smaller centers into one large center in Durgapur. Currently, HGS has 69 global delivery centers across seven countries. The employee head count at the end of September 2017 was 45,926, an increase of 1,049 over Q1.

Now moving to the markets we serve and our delivery locations, in Q2 FY2018, HGS made good progress in the North America region, which comprises US and Canada. We saw double-digit year-on-year growth in USD in US onshore while Canada posted flattish growth in Canadian dollars. We won a couple of interesting deals in this region including one with a US-based cable operator to provide customer care and tech support through about 120 full time employees.

In December 2016, HGS has launched its Work@Home program in Canada. The program leverages the technology platform to enable remote working and provides us access to a wider talent pool across flexible work schedules. Currently, HGS has about 100 employees in Canada and about 150 in the US through the Work@Home program. With higher demand seen from clients, HGS is looking to further increase this category of employees. Over the next six months, we plan to expand the number to about 500.

The scenario in HGS UK is on the uptick, with a modest improvement in the revenue performance for Q2 FY2018 in GBP terms. However, EBITDA and margins will take more time to stabilize.

In terms of business expansion, we have signed four deals since July 2017, which includes an engagement to provide end-to-end services such as social media support, customer care support, tech support, handling complaints etc., for a leading consumer packaged goods company in the UK and Ireland. Being a Crown Commercial supplier, HGS is bullish on the opportunities coming up in the government sector in the UK market. Contracts worth 1,500 seats of government work is likely to be retendered in the next six months.

Summing up our business in the onshore locations, US is doing well, Canada has improved but can do better, while the UK is still under quite a bit of pressure. We now have a new management team in the UK who will have to implement a turnaround for that business.

The performance of the Philippines operations continued to be strong in Q2, with the business posting a YoY growth in the high-teens. During the quarter, HGS kicked off project launches for existing healthcare and consumer clients. At the end of Q2, we had over 7,700 employees. As we speak today, we have crossed the 8,000 milestone as well.

Now coming to the India CRM business, the region saw muted revenue growth while margins continue to be challenging, mainly due to lower volumes from the telecom clients. However, the new engagements in the non-telecom segments signed in Q1 went live in September 2017 and are expected to ramp up further in Q3. HGS also won new business from new logos in the fast food, retail and the transportation verticals. These wins will also go live in Q3FY2018.

We launched a new solution providing end-to-end GST compliant services to support the needs of corporate clients in India. We are currently supporting a few clients including a major Indian telecom operator from Noida and from Chennai. We believe that the recent turmoil in

telecom will continue for the rest of the year and we will have headwinds arising out of that. We are now deliberately focusing on non-telecom clients for India domestic business and expect to end the year with non-telecom revenue up from 20% to 30%.

Coming to our biggest vertical healthcare, it posted a 12% year-on-year growth in Q2. We made further inroads into the wallet share of existing clients as well as signed up new logos. You are aware that the open enrolment season in the US market has just started. All US health insurance policies renew as of 1st of January. We expect to ramp up significantly across US, India and Philippines to support the growth.

HGS' mission is to make our clients more competitive in the constantly changing world. We are committed to help them deal with challenges arising from trends like digitization, consumerization and increasing competition, and drive growth.

We continue to invest in building capabilities in technology solutions, people and domain expertise - both inhouse and through partnerships. This has resonated with our clients and we have gained share in the increasing digital spend through deals for our three big solution areas - HGS RPA (Robotic Process Automation), DGCX and Analytics. We have developed several client cases in innovation and transformation, demonstrating significant impact in the last 18 months. This is helping us to proactively pitch for transformational deals and win. I will not be able to share the specific details on revenue but we have been posting strong growth in this category.

Technology is also changing the industry play book. There is a huge start-up ecosystem that has come up and there are several experimental and beta version tools available, which are relevant to our industry. However, these companies have no access to capital and markets. With our focus on innovation-led growth, HGS is looking to partner with such companies in the start-up eco system.

Our capabilities are also being recognized by the industry. Analysts like the Everest Group have rated us highly in their recent reports on digital and automation solutions. We have won several awards including the NASSCOM Customer Service Excellence Award in 2017 in the transformation category and for the best use of Self-Service Technology at the Contact Center World Awards.

In conclusion for my portion, we have posted a good performance in H1, led by business expansion amongst the existing clients. However, challenges remain with respect to increasing minimum wages proposed in Canada, lower volumes in telecom in India and the performance pressures in UK. We continue to take necessary cost containment measures to reduce the impact. Based on the overall demand scenario and factoring in current FX rates, we expect the second half of FY2018 to be better than the first half of FY2018. On a full year basis, we expect overall revenue growth but softer margins compared to FY2017, mainly on account of the exchange rate and the pressures on India domestic and our UK business.

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 on our call today.

Srinivas Palakodeti:

Before I start with the highlights, I would like to reiterate what I have said in couple of earlier quarterly earnings calls. The results for Q2 FY2018 and H1 of FY2018 have been published as per SEBI guidelines and as per Schedule 3 of the Companies Act. As per Schedule 3 of the Companies Act, FX gains recorded by the company should be added to the other income while FX losses should be added to the other expenses. However, for the ease of comparison for today's discussion, EBITDA and EBITDA margins have been referred to excluding FX losses from other cost and treated as part of the other income.

Driven by demand across verticals and geographies in Q2 of this year, we have grown revenues by 6.5% in constant currency terms and 4.1% on a year-on-year (YoY) basis. On a sequential basis, revenues grew 1.7% in rupee terms and 1.6% in constant currency terms. On a half yearly basis, revenues have grown 3.1% in rupee terms and 6.4% in constant currency terms.

For the quarter ended September 2017, offshore and near shore revenues stood at 46.3% as compared to 46% in Q2 of FY2017. Strong growth in the US healthcare onshore delivery has led to offshore and near shore revenues as a percentage of the total come down slightly from 46.7% in Q1 of FY2018 to 46.3% in Q2 of FY2018.

Coming to revenues, from a vertical perspective, healthcare revenues have grown sequentially as well as on a YoY basis. Telecom revenues have fallen both sequentially as well as on YoY basis. This is primarily due to softness in volumes in the India domestic sector. Revenues from media and entertainment have grown sequentially as well on YoY basis, primarily from a client addition in Canada. Banking and finance sector revenues have grown strongly on a YoY basis. From a revenue by origination perspective, all geographies have grown except revenues in the UK. Some of the ongoing cost rationalization efforts and improvement in operational efficiencies including consolidation of delivery centers continue and has started showing results.

Employee costs, which account for bulk of the operating costs have remained flat over Q1 and has risen by about 3% on a YoY basis, despite net employee addition over the previous quarter of 1,049 and 2,133 over last year. Our average monthly revenue per employee for India experienced an increase, despite a stronger rupee and some of the challenges of the India CRM business. We have seen growth in margins both on a YoY basis as well as on a sequential basis. EBITDA of Rs. 1,038 million was up by about 7.6% on YoY basis and by about 3.6% on a sequential basis. We continue to repay our debt for the past few quarters and the interest cost has reduced from about Rs. 111 million in Q2 of FY2017 to about Rs. 86 million for Q2 of FY2018.

With the company focusing on migrating from a CAPEX model to an OPEX model and consolidation of some centers, there has been a decrease in the depreciation costs for Q2 of FY2018 as compared to Q2 of FY2017. Other income has increased in Q2 FY2018, primarily on account of FX variations of the USD versus the PHP and the USD versus the Canadian dollar. Pre-tax profits have gone up by about 28% on sequential basis and 50% on a YoY basis. As a result of this, PAT has gone up by about 29% on a sequential basis and about 43% on a YoY basis.

We have ended Q2 with a PAT margin of 5.7%, up from 4.1% in Q2 of FY2017. During the quarter, we have incurred CAPEX of Rs. 433 million as against Rs. 395 million in Q1, bringing the total CAPEX for the first half of the year to Rs. 828 million. We continue to pursue adding capacities wherever possible on an OPEX model. The number of seats on an OPEX model stands at 16% of total seats, up from 12.3% about a year ago. During the last 12 months, we have added about 2,000 seats on an OPEX basis and about 1,500 on CAPEX basis.

Between Q2 of FY2017 and Q2 of FY2018, we have repaid gross debt of Rs. 1,750 million and over Q1 of FY2018, we have repaid debt of Rs. 247 million.

At the end of 30th September 2017, we have gross debt of Rs. 5,714 million and a net debt of Rs. 657 million. The net debt to trailing 12 months' EBITDA, which was at 0.69% in Q4 of FY2017 decreased to 0.29% in Q1 of FY2018 and has come down further to 0.16% at the end of Q2 FY2018. The net debt-to-equity, which was at 0.21% in Q2 of FY2017 is now at 0.05% at the end of Q2 FY2018. From an EBITDA to free cash flow conversion, it stood at 68% for Q2 of FY2018; for the first half of the year, it stands at 72%. Cash and treasury surplus accounts for about 14% of the total employed.

The business return on capital employed excluding treasury and cash surplus as well as the income earned from them improved from 15.4% in Q1 of FY2018 to 19% in Q2 of FY2018. For the first half of the year, the business ROC stands at 17.2%.

The headcount increased by about 1,049 over Q1. Of the total employees, about 66% are in India, 17% in Philippines, 10% in US and Jamaica, 4% in Canada and the balance in the UK. Of the 30,354 employees in India, around 17,000 are in the India domestic business, 9,000 for the India offshore and around 3,370 for the HRO business.

Before we open up the Q&A session, we would like to invite you for the HGS Investor Meet, which is being held at Trident BKC Mumbai on 7th December 2017. Invites and other communication for this event will be sent to you shortly by Ravi.

With this, I would like to end my section and open the call for the 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 Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: My first question pertains to the top 11 to 20 accounts, which had a very strong growth this quarter. So any particular drivers for that?

Srinivas Palakodeti: The top customers are doing well but we cannot get into the specifics. But as we have said, we have been adding clients across all sectors and what has happened is this is not driven by one particular sector. We have seen growth across all sectors.

Apurva Prasad: So would the mix have changed slightly in the 11 to 20 with some of the non-20 entering that, Would that have also impacted the 11 to 20 accounts growth?

Srinivas Palakodeti: Yeah, I mean the top 20 in Q2 of last year may not be the same top 10 or top 20 in this year.

Apurva Prasad: Also the employee headcount in Canada saw a drop during the quarter. What would that be attributed to?

Srinivas Palakodeti: It is a matter of managing operations on a tighter basis. So depending on the forecast and how the revenues are coming in, if you are able to generate same revenues or more revenues through better efficiencies, then the headcount would reduce.

Apurva Prasad: And lastly from my side. As we are soon going to turn net cash, how should we really see the dividend payout going forward?

Srinivas Palakodeti: If you see what we have said earlier and what we have been saying in the past recent quarters as well, the focus for the company is to improve performance and use whatever cash has being generated, primarily for reducing debt and as well as redeploying for growth - either through the CAPEX or the OPEX model. So at this stage, it is hard to say specifically in terms of anything more on the dividends. We have declared an interim dividend of Rs. 2.5 per share, which is same as what we have done in Q1 and in effect same as what we have been doing in the interim dividends for FY2017 as well as the final dividend for FY 2017.

Moderator: Thank you. We have the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First is on the healthcare vertical. Are there any changes that you are seeing in this particular enrolment season and any potential impact on the growth that you may witness in second half?

Partha DeSarkar: Mohit, could you repeat that question please?

- Mohit Jain:** For the open enrolment season, are you seeing any changes in terms of people enrolling for the whole system? Any impact that can happen on our second half healthcare vertical numbers from those changes?
- Partha DeSarkar:** As of now, the demand is the same as what it has been in the previous years. It has just started, so whether the volumes will be in line with what our clients have projected... it is a little hard to predict that. But our clients seem to believe that the demand is going to be the same as previous years. So that is the visibility that we have as of today.
- Mohit Jain:** There is no risk to that as of today to that projection?
- Partha DeSarkar:** No, as of now no. But it is obviously a forecast. So what the actual number is going to be, we do not know. But as of now, there is no risk.
- Mohit Jain:** Second is on ex-healthcare, the growth is not there for the company. Sometimes, telecom is under pressure and while BFSI is growing, you are not able to offset the pressures in other verticals. So what is your outlook there like ex-healthcare. Can the company grow at 4%, 5% or 3%?
- Partha DeSarkar:** Yeah, the focus is on growing the non-healthcare part of the business. Everything that is non-healthcare is called CET which is Consumer, E-Commerce and Telecom & Technology. We have a new focus on this segment by having senior leadership brought in to deliver those. We have had slower growth than we expected in Canada and UK, and we are trying to sort that out by bringing in a new leadership team in UK. I believe that very soon, we will have growth back in Canada and UK, and once that comes in, this is all CET growth, this is not healthcare growth. So once that comes in, we should be in a strong position even in the CET part of the business, which is what you call non-healthcare.
- Mohit Jain:** Any color on the telecom side of the business like?
- Partha DeSarkar:** Telecom is a mixed bag. We have had good success in North America. We signed up two fairly large deals in North America. However, that growth is offset by the fact that we have got big challenges in India. So as I said, telecom always has been a fairly mixed bag. One geography does well, the other does not. That is also one of the reasons, our focus is on healthcare while reducing our focus and dependence on telecom revenues.
- Mohit Jain:** In the case of revenue stabilization, is there a case like second half would be better or you may see the decline given India business is under pressure?
- Partha DeSarkar:** I think it will reflect more in bottom line than in growth. As of now, we have a reasonable handle on both. We could have certain bottom line pressures, which is what I said and that is really driven more by the FX situation. There is an impact of India domestic and UK that is principally driven by where the rupee stands vis-à-vis last year.

- Mohit Jain:** And the other thing is you have highlighted this margin pressure last quarter as well due to wages being on the higher side or likely to be on the higher side. So any update on that side or do you think your cost structures can be maintained at current levels?
- Partha DeSarkar:** Part of the problem in India domestic is also because of the wages going up. I mean all states have made the wage structure uniform across the states. So the attractiveness/advantage that a Tier-2 or a Tier-3 location had three-four years back is now gone. There is no wage differential across the states now. We do try and manage our costs to the extent possible and that is why you have seen that we have been able to still improve margins. I want to be conservative in our outlook for margin for the next half of the year. If we can do better than that obviously good but at least we are setting our expectations with all of you on a more conservative basis.
- Mohit Jain:** So a little longer time perspective. I am not looking at one or two years, do you think that 11% is something despite with pressures and the changes that are happening this is something that you can hold on to or you may be or you have to utilize more levers to sort of just defend the margins rather than expanding?
- Partha DeSarkar:** Actually, you see 11% is being achieved despite having profitable pressures in UK and India domestic. And we obviously are always continuing to work on improving profitability. So as we fix those businesses and hopefully we can fix them, these are not insurmountable problems. I would expect the margins to improve. This number you are seeing is with at least three businesses not doing as well as I would like to. Canada is not where I want it to be and UK is actually not doing well and India domestic is not doing well. Imagine a situation where all three are doing pretty strongly. I think the margins can only improve from here.
- Mohit Jain:** Can you share UK margins or any ballpark there?
- Srinivas Palakodeti:** Mohit, we do not give individual performance. So all we could say is that these geographies, as Partha mentioned, are much below the average.
- Mohit Jain:** Just trying to judge how much impact could it have if all these three improve like 50 bps, 100 bps?
- Srinivas Palakodeti:** You know the share of revenues. 17% of revenues come from Canada and UK. These businesses are facing financial challenges .
- Mohit Jain:** So revenue breakup I got it. I was just looking the margin perspective?
- Srinivas Palakodeti:** You can get a sense there.
- Moderator:** Thank you. We have the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

- Giriraj Daga:** Sir, there were two questions. First on the other income, I believe you mentioned that the other Forex income is a part of other income but normally when you book a Forex loss, it is part of other expenses. Is that heard correctly?
- Srinivas Palakodeti:** Yeah, so let me explain. Till December of last year - so the quarter ending December 2016 where everybody was reporting, if there is an FX gain or loss on account of restatement of the tables or anything on the FX side, that would be part of other income. So you could have a situation if there is a huge FX loss, you could have a line with negative other income. We have seen this in some companies four-five years back. But from 1st January of this year, what SEBI has said is that, and which is in line with the Companies Act, that if you have an FX gain, it should be part of other income and if there are FX losses, it should be part of the other expense.
- What we have done for this discussion, is to keep the treatment same between... so if we have treated any FX gain as other income and if there was a FX loss, it would be netted off from the other expense to get a better fix on the operating performance. But having said that, in the current quarter it has been FX gain and not FX loss. So it is not relevant for this quarter and if you look at the quarter ending June 2016, there was a small amount of about Rs. 88 lakhs, which is part of the other expense. But for our analysis we have taken that out.
- Giriraj Daga:** So what was the Forex income number which included in other income in this quarter?
- Srinivas Palakodeti:** If you look at the total other income, that comes to about Rs. 14 crores. Close to Rs 10.5 Crores is coming out of the FX gain and loss.
- Giriraj Daga:** And it is part of that trade receivables or liability movement?
- Srinivas Palakodeti:** Yeah, anything which is move on the currency side.
- Giriraj Daga:** Okay, my second question is related to our working capital. If I look at our debtors, despite a 4% revenue growth, we have seen our debtors moving from Rs. 470 crores to Rs. 625 crores when comparing last year September to this year September, that is more than 30%. So any particular reason are these one off or are we having larger credit cycles, what is your thought there?
- Srinivas Palakodeti:** The way we measure working capital, there is also a timing difference what we called revenues accrued pending actual invoicing. One could be a timing difference but if you look at it from an overall basis, our EBITDA to free cash flow converge because the CAPEX is pretty much in that range of Rs. 80 odd crores between last year and this year. I mean it is not seeing a significant increase. The fact that we are doing a better EBITDA to free cash flow conversion would only confirm the fact that there is nothing wrong on the working capital side - we are actually collecting debtors.

- Giriraj Daga:** But any particular reason for this sharp jump? I agree I understand that okay trade payables might have gone up but any particular reason for this jump like any which you can highlight or is it a timing issue which you will correct next quarter?
- Srinivas Palakodeti:** It will correct this quarter, it could be a temporary issue. We do not see any challenges from a collectability perspective.
- Giriraj Daga:** Okay last small thing. Any guidance on FY19 growth number would you like to share?
- Srinivas Palakodeti:** We do not give any guidance, so we would not be able to give any specific number.
- Moderator:** Thank you. We have the next question from the line of Shubhankar Ojha from SKS Capital. Please go ahead.
- Shubhankar Ojha:** I missed out on some commentary. Partha I think he has talked about on H2. I mean outlook, I mean not an exact guidance but outlook on H2 margin profile I believe. I am not sure if he has talked about already, if not, can you get some direction in terms of H2 margin outlook?
- Partha DeSarkar:** Yeah, I did mention that towards the end of my portion.. What I was trying to say is that on a full year basis, we expect that the overall revenue growth will be there but there will be softer margins compared to last year. And that principally is coming on account of the FX movement. There are some pressures of India domestic and our UK business that may revert itself in H2. But I am being conservative in this call to just saying that based on these three factors - FX, India domestic and UK, the margins for the full year may be slightly less than the margins for last year.
- Shubhankar Ojha:** And last year H2 was strong in terms of the margin, overall quarter 3 and quarter 4 was a stronger quarter for us in terms of the margins?
- Partha DeSarkar:** Yeah, the rupee has changed significantly since then.
- Srinivas Palakodeti:** Just to give a perspective, if you look at H1 EBITDA margin, it is about 10.9% as compared to 11.2% of H1 of last year. So we are starting off with in a way a bit of a backlog.
- Shubhankar Ojha:** So basically probably this will continue?
- Partha DeSarkar:** Yeah, I am being conservative as I stand today. I want to be conservative in giving an outlook on how the rest of year is going to pan out. It is better to be conservative and then try and outperform, right.
- Shubhankar Ojha:** Yeah, that is okay. And Pala, if you can give the free cash flow which interest in for the quarter and half yearly?
- Srinivas Palakodeti:** Sorry, can you repeat your question again?

- Shubhankar Ojha:** The free cash flow generated for Q2 and H1?
- Srinivas Palakodeti:** If you look at the H1 as a whole, we have had total cash flow come up to about Rs. 271 crores of cash flow from operations after working capital change. And then there is Rs. 83 crores of CAPEX. So roughly Rs. 190 crores is your debt level... is your cash flow from operations and after factoring in to account working capital changes and the CAPEX. So that is the number and if you look at the first half of the year, first quarter, it is roughly about Rs. 86 crores.
- Shubhankar Ojha:** CAPEX you said Rs. 83 crores for H1, right?
- Partha DeSarkar:** Yeah. So it was for Rs. 86 crores cash generated after working capital change and OPEX for Q1 and about Rs. 198 crores for the first half of the year.
- Moderator:** Thank you. We have the next question from the line of Akansha Jain from Nirmal Bang. Please go ahead.
- Akansha Jain:** Sir, I had a question on the UK business. What is the problem that we are facing in the UK business because of which the revenue is coming down?
- Partha DeSarkar:** Yeah, I think what has happened is there have been operational challenges in the UK business resulting out of not being able to deliver to our client expectations. We had to make a change in the leadership in the UK business. And that is now done; we have a new leadership team in place. They are working on those operations. It is not an insurmountable challenge. We believe by March 2018, I think we would have steadied the business with the new leadership team. So specific answer to your question is, these are operational challenges.
- Akansha Jain:** Okay so by March 2018 and next year we can assume a growth in your UK business?
- Partha DeSarkar:** That is what I am working on because the March 2018 numbers will show a decline in UK revenues and we will have to build from then on.
- Moderator:** Thank you. We have the next question from the line of Lala Ram Singh from Hybrid Securities. Please go ahead.
- Lala Ram Singh:** My question was on the Canada operations. So even there is it an operational issue or is it more macroeconomic?
- Partha DeSarkar:** It is a combination of the two actually. It is a very interesting question that you asked. There is a proposal to increase the minimum wages very significantly. Now that obviously is not an operational issue, it is a factor which is outside our control. Now if that were to happen, our ability to pass the cost up to get a committed price increase from our clients is what we will try to do. So at this point of time, neither has the minimum wage increased nor have we asked for a price hike but we have told our clients that if this happens, then we have to increase the price.

So it is still a little bit of let us wait and watch and see what happens. We will be in a better position in quarter 3 to exactly say how that will pan out. As I said, I have taken a conservative approach towards giving you an outlook for what H2 is going to look like.

Lala Ram Singh: And based on the communication with the clients, what is the kind of feel which you are getting in terms of will you be able to pass out or which you will have to share the burden together, any thoughts on that or it is difficult to tell?

Partha DeSarkar: Yeah, I mean the discussions have been positive but since the actual thing has not happened yet and it is still at a proposal stage, we would not be able to give you more specifics but the discussions with the clients have been positive.

Lala Ram Singh: Also if I am not wrong then in Canada, I think we also suffered because of decline in oil prices and also one of our clients I think depends on that sector I do not know if I am correct but on that front any commentary?

Partha DeSarkar: No, actually none of our clients are dependent on the oil sector but overall the economy is an export dependent economy. And is also dependent upon oil; Oil is a large chunk of their export and frankly as the oil prices kind of increase a little bit, it may end up in boosting the economy a bit. But those are fairly deep macroeconomic questions, where would oil prices be, what impact will that have on world supply, how that will impact Canada? How will that impact; that is not in my control.

Lala Ram Singh: Yeah, that was not yeah absolutely I agree on that. And on the HRO business, that is the payroll business, I think it has been one of the highest growing business for us. Is it correct?

Partha DeSarkar: That is correct, yes.

Lala Ram Singh: So can you share some what kind of growth are we experiencing there is 20% plus and what kind of scale can we get in that in the next three to five years?

Srinivas Palakodeti: If you look at it, the business has a run rate of roughly in the range of say Rs. 30 odd crores for the quarter. So that is the current run rate in the business, which we acquired about six years ago. Whatever is the business we used to generate in a year, it is coming close to or not exactly at the same level but close to that in a particular quarter. That is growth, which has happened over the last five to six months.

And clearly what we are doing is going beyond HRO, I mean just not payroll processing. We do analytics on hiring, we do some F&A, we do compliances. So there are multiple levels of lines of business, which come under that particular business unit. That is something which is going well. That is all I can say.

Lala Ram Singh: And is it fair to say that these service lines are much more margin accretive?

Srinivas Palakodeti: See these are multiple lines of business and I think the other way to look at it is not just in terms of margin. There are two pluses. They require fairly less, I mean very little, on the CAPEX side. The other thing is it tends to be more non-linear in growth compared to what we have in the other parts of the business. And we think it has the ability to improve our overall return on capital employed. It is small but directionally, it brings in all these parameters from a performance perspective.

Lala Ram Singh: But you do not want to say that there will be a significant change in the margin profile because of that in the business of HGS over the next three to five years?

Srinivas Palakodeti: I mean just look at it this way. If we have revenues of about Rs. 927 crores for the quarter, the composition of that is pretty small in that. So for you to say out of our total revenues of Rs. 943 crores, if Rs. 30 crores has come from the HRO business and it will improve the overall performance... it would not change move the needle immediately.

Lala Ram Singh: So Rs. 30 crores is quarterly, right?

Srinivas Palakodeti: Quarterly.

Lala Ram Singh: So overall, it is very small to make a difference in the picture, okay. And one final question on the long term outlook on HGS' business since we are into a sector which is changing very fast. So I think we have taken lot of initiatives in the past like trying to do different models of work from home and maybe we did a rough M&A in the past. So overall what can we expect in the next five years in terms of our positioning in the overall space, some directional commentary you?

Partha DeSarkar: See we have not yet given a five-year outlook. I do not believe that I am allowed to give that kind of an outlook on a call like this. If you bear with us, I can check with our compliance team to see that if you come and join us for our investor day, whether on that day we can share a five year outlook. But where we stand today, I have to check with compliance whether I can give you a number which is a five year outlook on a call like this.

Lala Ram Singh: I actually did not mean to say about numbers but more about qualitative commentary?

Partha DeSarkar: Yeah, the focus clearly has to be on profitable growth. If you have followed our track record, we have grown consistently but in the past - Let us say two- three years back, we had challenges with our margin coming out of Canadian business, coming out of our India domestic business. Now we have scaled enough to be able to absorb a bit of an underperformance in different businesses.

As I said even today, the margin has improved though some of our businesses are underperforming, which means the other businesses were able to pick up this slack. Our focus is therefore going to be on profitable growth and not growth for growth sake. And that is

reflected in the fact that we are working very hard on bringing profitability and consistent predictable profitability back in our business. We are focused on cash flow generation, we are focused on debt reduction. These are the things that we believe are important to build long term value and we are focused on that.

Lala Ram Singh: Yeah, I think the most important work that was predictable because historically we have seen that there have been times where we have one good quarter and followed by a couple of weak quarters which may be a combination of macro and other factors. And therefore the market seems to have not given us the true rewards. So I believe what is predictable was the most important there. So if you can of course in the last two, three, four quarters have been really positive and all the best for the future.

Moderator: Thank you. We have the next question from the line of SB Bhaiya from an individual investor. Please go ahead.

SB Bhaiya: Actually if I have heard that right, you are having some margin pressures in UK, India and due to some currency fluctuations. So what sort of outlook or revenue growth you are actually seeing for the next six months please? That is my only question.

Partha DeSarkar: Yeah, it is in similar terms as what you have seen in the first half of the year; May be slightly better.

SB Bhaiya: Okay so about 4%, 5% that is how it is?

Srinivas Palakodeti: 4% to 5% is actually on rupee terms, right. The better way to look at is in constant currency terms. Because we do not know which way the rupee will go. On constant currency terms, we have delivered about 6.5% and we think we will be able to do better than that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Ramalingam Ravi for closing comments. Please go ahead, sir.

Ramalingam Ravi: Before I sign off, I would like to inform all the participants that HGS would be hosting its analyst meet on December 7. Thank you to all the participants for joining us on the conference call. If there are any further questions or clarifications about the Q2 FY2018 or the First Half FY2018 financials, please e-mail it to me or to Pala and we will get back to you. This is Ravi signing off on the behalf of the HGS management. Thank you.

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