Hinduja Global Solutions
Q3 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: Ladies and Gentlemen, Good Day and Welcome to the Hinduja Global Solutions Q3 FY2017 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 this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. R. Ravi from Hinduja Global Solutions. Thank you and over to you, sir!

R. Ravi: Thank You, Ladies and Gentlemen. As the Head of Investor Relations at Hinduja Global Solutions, I wish you all a very good evening and a warm welcome to the third quarter FY2017 and nine months of FY2017 post results conference call. To discuss the quarterly results, I am joined by Mr. Partha DeSarkar -- CEO; 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 future financials and operating results, benefits in synergies from the company strategy, future opportunities and the growth of market for the company's 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 many involve risks and uncertainties. For a list of such considerations, please refer to our earnings presentation on page two.

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, Ravi, a very good afternoon, everyone and thank you for joining us on the call today to discuss our third quarter FY2017 results and business performance. We hope that you have had an opportunity to review our presentation

and the financials, which are also available under the investor 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 be handing over the call to our CFO -- Mr. Srinivas Palakodeti to discuss the financial performance in detail. We will then open up the call for the Q&A session.

Traditionally, the second-half of the fiscal year has always been better for HGS compared to the first-half. We have seen similar trends in FY2017 as well which is evident from our Q3 financials.

In brief,

- In Q3 FY2017, we delivered a revenue growth of 8.3% year-on-year at Rs. 956 crores. Sequentially, we grew 5.6%.
- We reported net profit growth of 136.4% on a year-on-year basis to Rs. 47.2 crores. Sequentially, we grew 26.2%.
- EBITDA for quarter three was up by 40.6% year-on-year at Rs. 114.5 crores. EBITDA margin for Q3 stood at 12%. Sequentially, EBITDA grew by 18.7%.

This growth was led by strong volume growth from our top 10 clients, new logos in verticals such as healthcare and consumer products, and significant improvement in seat utilization to 88.2% from 85% in quarter two.

For the first nine months of FY2017, we posted a year-on-year revenue growth of 14.8% to Rs. 2,771 crores. Of this, organic growth was 10.6%; inorganic growth of 2.8% and the FOREX impact was 1.4%.

Going to more details about our quarter three performance, healthcare posted robust growth in this quarter. This vertical contributed 47.3% to overall revenue, as compared to 44.6% share of revenues in quarter two of FY2017. Strong volume growth was seen in large accounts across India, Philippines, and Jamaica led by the Open Enrollment season.

We continue to increase to increase our operations in off-shore/ near-shore locations. Contribution from this segment increased to 47.9% in quarter three FY2017, as compared to 46.2% in quarter two FY2017. The India international business continues to show strong growth led by the healthcare vertical. We are operating at close to 100% capacity in India and expect to open more centers to support healthcare clients from India in coming quarters.

HGS Philippines continued its business expansion and growth. The healthcare vertical is the primary growth driver for the Philippines operation. We added new lines of businesses across healthcare and consumer product lines in quarter three FY2017, this included a new line of business from our fitness product client supporting sales connects in UK. We celebrated 15 years of partnership with a leading banking client and we exited quarter three with 7,765 employees in the Philippines.

Jamaica continues to do well. We have crossed 1,500 in headcount in that region. Won significant business from a healthcare client, leading to opening of an additional center in Kingston in January 2017 to accommodate this expansion. This is our fourth center in Jamaica. It is also the largest facility that any BPM company has in a single location in Jamaica. When completed, the site will have 1,200 seats.In the first phase of expansion, over 500 new jobs are expected to be filled by the end of quarter four FY2017.

On the people front, the total headcount at the end of December 2016 stood at 43,750. We continue to focus on better seat utilization as a lever to drive profitability. In quarter three, the total number of seats stood at 40,002 with 11.8% empty seats. Primarily in Canada, U.S., and UK, we are looking to improve this further by increased hiring in Canada and adding new businesses in other geographies. In fact, we recently announced that HGS is looking to hire 1,225 customer experience professionals across Canada in the calendar year 2017 to meet increasing client needs.

HGS continues to make in-roads into new client businesses. We have signed six new logo clients in U.S., Canada, and the India market. Our overall active clients today stand at 185 and 607 in the BPM and HRO and F&A businesses, respectively.

For the nine months ended December 2016, HGS generated positive cash from operations after working capital changes to the tune of Rs. 445 crores. We had CAPEX of Rs. 127.3 crores. Our nine month EBITDA to free cash conversion works out to around 37%. During the last nine months, we have reduced our debt by Rs. 117 crores.

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

Now moving to the markets we serve, in North America the performance of the region has been very exciting, particularly driven by the healthcare vertical due to the Open Enrollment season. The U.S. operations saw growth in on-shore business led by new logo revenue from healthcare, logistics, and consumer electronic verticals. Addition of new logos and lines of business helped improve seat utilization.

In view of the changing needs of the client, HGS is in the process of ramping down its facility in Waterloo. Work is currently being transitioned to other sites and we expect to completely exit this facility effective March 1, 2017.

Canada's performance is in line with management expectations, with recent improvement measures helping us drive up operational efficiency and profitability. We have won a new multimillion dollar contract from a leading telecom company in Canada to support the client's video legacy customer care. We recently started work for this client in January 2017 with over 200 FTEs from our North Bay center and expect to start servicing from Charlottetown center shortly.

Jamaica continues to experience phenomenal growth, with clients looking at it as a great near-shore option, as stated earlier.

In the last quarter's call, we had highlighted some challenges in revenue and profitability in UK operations in quarter three. The volumes have decreased as two UK government contracts came off the peak load. Looking ahead, we expect seasonal ramp up to commence towards the end of quarter four and we have a stable outlook profitability from the next quarter.

India domestic posted robust growth in revenue on a year-on-year basis and expanded business with telecom clients as well as had several new wins across healthcare, NGOs and automotive verticals.

Leveraging mobility and collaboration trends, HGS launched a new business delivery model WAH (Work At Home) in Canada in December 2016. This initiative is expected to break the brick and mortar landlock and multiply the employee labor market available exponentially. At the same time, clients such as the telecom company - we had initiated this program for - will benefit from productivity gains. We expect to have about 250 FTEs through this model by FY2018.

You are aware that in mid-2016 we launched the DigiCX suite of solutions and the HGS-RPA. These are solutions that we believe will help us differentiate ourselves in the market. We are seeing good traction with our clients. We are working on eight client engagements for HGS-RPA. Recently we started work with three provider companies for whom we have automated the pre-work process which has resulted in reduction of time spent by approximately 25%.

The industry also is recognizing innovation behind this proactive solution. HGS was awarded Frost & Sullivan's 2016 North American Contact Center Outsourcing New Product Innovation Award for HGS DigiCX suite of solutions. The award recognizes our new approach to client design thinking and helping our clients optimize their customer experience, making their business more competitive.

In conclusion, overall Q3 broadly saw good results in line with our expectations. Apart from significant gains derived from efficiency measures, the main drivers

for this improvement have been strong volumes, especially from our top 10 clients and the benefits of the open enrollment season in healthcare vertical.

We do expect challenges of our revenue and profitability in the UK operations to continue. HGS quarter four revenues maybe a little softer compared to Q3. We are also seeing the rupee strengthen. If it strengthens further , the profitability in quarter four may be slightly softer then quarter three. But for the fiscal we expect significant improvement in EBITDA margins compared to the previous fiscal.

The last few things:

Iin light of the recent news from the US - firstly on changes to the H1B visa norms, I wanted to clarify that it does not have any impact on our business. About 42% of our revenues are delivered onshore in the US, Canada and UK by local hires. We are not in the business of exporting H1Bs from India to the US. In fact, we are in the process of hiring about 1,500 people in North America.

Secondly, regarding the Affordable Care Act also known as ACA, the Act is said to be changed as per the announcement by President Trump. However, there is no specific information on replacement plan to support the 20 million odd members insured through ACA yet and we have to wait for the new plan to come into effect to access changes. HGS does not foresee any impact on our core services since we have little to no exposure to marketplace related provision of the ACA. The core processes that we handle existed before the ACA and will exist post changes to the ACA.

As mentioned in our earlier call, if the federal exchanges that support the individual enrollment process change and we do not know that yet, then it may have an impact on our Colibrium business. But at this point, there are no specifics and therefore, we are not in a position to make any definitive statement.

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

Srinivas Palakodeti: Thank you, Partha. Good afternoon everyone and thank you for joining our Q3 FY2017 earnings call. Our revenue for the quarter ended December 2016 increased by 8.3% to Rs. 9,563 million. In constant currency terms, our growth for the period was also 8.3%. As per the mix of currencies and based on the geographies we operate, overall there was no net impact.

The average rate of the USD to INR for the quarter were Rs. 67.75 as compared to Rs. 66.03 in Q3 of FY 2016, a change of 2.6%. The average exchange rate of the Philippine Peso to the U.S. dollar changed from PHP 48.6 in the quarter to PHP 46.95 for the same period last year, resulting in a change of 3.5%. Compared to Q3 of last year, the Indian rupee depreciated by around 3.2% against the Canadian dollar while the INR appreciated 16% against the British pound.

Moving to revenue origination from geographies, US accounted for 68% of the total revenues as compared to 64% in the same period last year. The share of Canada originated revenues dropped from 12% in Q3 of FY2016 to 10% in Q3 of FY2017. Revenues originating from UK, declined by 11% in Q3 of FY2016 to 7% in FY2017. The decrease of share of UK revenues is primarily due to the exit of a European client mentioned in last quarter. Contribution of India originated business increased from 13% in Q3 of FY2016 to 14% during the quarter ended December 2016. This quarter was primarily due to acquired India CRM business growth in volumes from existing clients of the India CRM business along with the growth in HRO and the payroll business. Of the total India originated business, around 11% came from the CRM business and 3% came from our HRO and the payroll business. Off-shore and near-shore revenues accounted for around 48% of the total revenues.

In terms of revenue contribution by verticals, healthcare continues to be a major contributor and accounted for 47% of the total revenues during the quarter as compared to 41% in Q3 of FY2016. The contribution of telecom and technology verticals declined from 29% in Q3 of FY2016 to 22% in Q3 of FY2017. Revenues from the telecom sector have declined in absolute terms as well due to softness in volumes in UK and Canada as well as weakness of GBP against the Indian rupee.

The share of revenues from consumer and BFS vertical remained at 13% and 17% respectively. The balance 10% came from other verticals. In absolute terms, share of revenues from healthcare increased by about 25%; consumer by 13%; and BFS by around 12%.

During the quarter, we recorded our highest ever quarterly EBITDA of Rs. 1,145 million representing a growth of 40.6% compared to the same period last year. EBITDA margin for the quarter was 12%, an improvement of 280 basis points on a year-on-year basis and 130 basis points on a sequential basis.

While employee related expenses for the quarter increased 7% to Rs. 6,067 million. As a percentage of sales, it has remained flat at around 66%. Other expenses for the quarter were Rs. 2,066 million compare to Rs. 2,081 million in Q3 of FY2016. While these have grown as a percentage of revenues, they have declined from 23.5% to 21.6% in the current quarter. Our interest expenses during the quarter ended was Rs. 104 million as compared to Rs. 91 million in the same period last year.

Other income for the quarter was Rs. 34 million as compared to a loss of Rs. 51 million in the same period last year. Other income for the quarter includes around Rs. 14 million on account of interest income tax refund receipt.

Profit before-tax for the quarter was Rs. 720 million, an increase of 118.6% on a year-on-year basis and the PBT margin of 7.5%. Our PAT for the quarter increased by 136.4% on year-on-year basis to Rs. 472 million leading to a PAT margin of 4.9%.

Along with the improvement in profitability, there has been better cash flows generation. For the nine months ended December 2016, cash flows from operations after factoring for working capital changes came to Rs. 2,451 million. After factoring cash outgo for CAPEX of Rs. 1,123 million there was net cash generation before financing of Rs. 1,328 million. 37% of the EBITDA for the first nine months has got converted into free cash flows from operations after working capital changes and CAPEX.

Increase in profitability and improved cash generation has helped the company reduce debt of Rs. 119 million during the quarter and Rs. 1,170 million between 31st March 2016 and 31st December 2016.

Business ROCE which is computed excluding treasury cash and treasury income was 18.6% as compared to 8.6% for the quarter ended December 2015 and 13.3% for the quarter ended September 2016.

Our cash and treasury surplus at the end of the quarter was Rs. 4,436 million, this includes $36 million of funds of our subsidiary HGS International, Mauritius, which is placed in the form of bank deposits with branches outside India.

Taking into account cash and treasury surplus, net debt as on 31st December 2016 stood at Rs. 2,908 million. Our net worth at the end of the quarter was Rs. 12,800 million based on the current levels we have debt to equity of 0.57X and our net debt to trailing 12 months EBITDA of 0.7X.

At the end of the quarter we have a headcount of 43,750 of which around 65% are based in India, 18% in Philippines, 9% in USA, 5% in Canada and the remaining 3% in UK. Of the total 28,342 employees in India, around 16,500 are in the India CRM business, 2,000 are in the HRO business and the balance are for India off-shore corporate functions and shared services.

The total number of seats as of 31st December, 2016 was 40,002, an increase of 727 seats over September 2016. This seat expansion has happened primarily in India and Philippines. It may be noted that between September 2016 and December 2016, revenue grew 5.6% on a flat employee headcount.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We have the first question from the line of Rajat Setiya from Rare Enterprises. Please go ahead.

Rajat Setiya: Sir, just one question to begin with, we have one of the lowest free cash flows in the industry and the primary reason for the same is because we have higher gross block compared to our revenues if we put it in comparison with our competitors and similarly higher working capital. So, could you elaborate more on both the aspects of the business?

Srinivas Palakodeti: Okay. So, traditionally, we have had a model where we typically buy all the assets which are inside a center which would mean we own the furniture, fixture, AC, the entire work along with IT. That is the model which we have followed for a fairly long period of time. In the last few couple of years, we have actually changed to a model where at least in India, we are able to get seats on an OPEX basis - where the landlord does the whole fitouts except for the IT part which from a control perspective we would like to incur on our own. Also if you see, we have had challenges in profitability in FY2016 for sure and some part of FY2015. So, with improvement in the profitability as well as the way we are building out assets, the CAPEX intensity has come down and if you see from a negative EBITDA to free cash flows conversion in the current nine months, we are at 37%. So, that helps you give some flavor of what has happened.

Rajat Setiya: So, I think you have talked about the same thing in your previous concalls as well but the point is I think at the moment as well our fixed at capital expenditure in the fixed assets has been more than what our competitors do as of today as well. While we might have changed over the last few years but as of today if we compare ourselves with our competitors like FSL and other competitors, we are still higher. So, do you think it will further change or you expect like Jamaican operations which I think you have mentioned that you are on the old model even today because you do not get plug and play kind of facility there. So, what do you think about how it will shape up as compared to our competitors.

Srinivas Palakodeti: Given a choice I would like to do all the seats on OPEX basis. Clearly, we understand the financial implications of that. But there are some markets like India, potentially US and Canada that this would work. We are yet to try it out in Philippines. Jamaica we know is at a very early stage as far as the BPO industry is

concerned, so it may not be available now but it is possible that going forward, these models will also be available. So, wherever available we will take up seats on an OPEX basis going forward.

Rajat Setiya: Okay. So, before moving onto the second part of this question, do we own any building or land anywhere or do we just take it on lease and then put on fixtures and other aspects of the capital expenditure?

Srinivas Palakodeti: Yes, most of our buildings are lease premises but just to put everything completely correctly, we do own some buildings which we had bought at a good price, about five- six years back in the US. In Canada we have a couple of buildings but they came out of the acquisition and in India we have three-four premises on owned basis and one in UK. So, some of them we have bought under special circumstances as it would have meant that we would lose the entire facility or operations would be completely stopped or disrupted or it was financially a good deal. But clearly, the focus as I mentioned is to have the landlord build out the CAPEX and not really to buy building or furniture fixtures and those kind of assets.

Rajat Setiya: So, going forward also, we might end up owning some assets given the situation I mean may be acquisition or may be the critical aspect of that.

Srinivas Palakodeti: See, what comes out of an acquisition is a separate issue but I do not see us buying a building just to put up a center.

Rajat Setiya: Okay. And whenever you put up a CAPEX, do you provide for more seats than what is needed as of today or you just put up as many seats as you think are required for the current contract?

Srinivas Palakodeti: No, in a typical scenario what we do is get the order and have the facilities fitted out. And we have a pretty good sense of that - typically about two months to three months before. So, that is what we have been doing because in the past, we have had situations where we built capacity ahead of demand and the volumes did not come in as expected. The only exception is Jamaica given the way we are growing,

we have added a large center starting January but we are fairly sure that that would fill up through FY2018.

Rajat Setiya: So, sir what has been the reason maybe you would have mentioned that in some previous con calls which I would missed may be. So, what is the reasons that there is underutilization of US seats capacity?

Srinivas Palakodeti: So, one was that as we mentioned - there was one center which we had identified for consolidation, so obviously we did not want to fill up these while we are in the process of shutting it down. Second, there was some withdrawal… I mean we withdrew from some clients on account of profitability. So we had some excess capacity in the beginning of the year but with new client wins, there has been an increase in the utilization in US as well.

Rajat Setiya: Okay, all right. Sir, what would have been our maintenance CAPEX versus the fresh CAPEX over the last? What would be the typical ratio of these two in the overall capacity that we do?

Srinivas Palakodeti: Depends as we said now with the assets being done more towards on an OPEX model, the CAPEX for the growth would have moderated. But having said that if you are looking at the figure for nine months, there is a one-off which we had mentioned of about Rs. 20 crores which we had mentioned during the course of our Q1 call which was towards a new corporate office in Bangalore so, that is one-off in nature.

Rajat Setiya: Overall if you have to put a number on the historical CAPEX, what would that be of Rs. 100 crores of CAPEX that we have been doing every year so, how much of that is going to maintenance?

Srinivas Palakodeti: It is hard to say generalize on that basis because if I look at FY2015, we had substantial capacity increase in such things. So, it is hard to generalize on that basis.

Rajat Setiya: Okay, all right. So, we can now probably move on to the second aspect of the free cash flow which is working capital which is again very high as compared to our competitors.

Srinivas Palakodeti: What we have is pretty solid clients and we are in a very sticky business. So, collections have not been a problem and whatever is the receivable is all valid current and will be collectable. You also need to factor into account that as a company, typically we have been growing faster than most of our competition, so the build up on receivables would also be faster.

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

Mohit Jain: Couple of questions. Is EBITDA to free cash flows or debt generation an appropriate parameter to watch for next few years, is that something that you are also tracking internally? And second is I missed your comments on the ACA, is there any quantifiable number on what kind of potential impact you can have from there?

Srinivas Palakodeti: Okay, I will take the first question. I will request Partha to address the second question. So clearly , as you said, focus is on profitability as well as reducing the intensity of CAPEX as well as improving the return on business capital employed. So, in a way if you are monitoring these three, we expect the conversion of EBITDA to free cash flows to also improve. So, this is something which we are monitoring internally as well as for communication with the external audience.

Partha DeSarkar: Coming to ACA Mohit, the situation is like this, we do not really anticipate changes in the inputs of process work flow of the work that we do for our clients. Let us say client building, claims adjudication etc., these processes existed before the ACA and will exist post ACA also. Those things will not change. What we do not know is - the 18 million or 20 million who have enrolled into the healthcare benefit as a result of the ACA… what is going to happen to them and there has been no clarity on that. So, till such time there is clarity on that, it is very hard to comment on how that is going to impact the volumes. The second thing is most of

our clients actually did not sign up on these clients. From these new sign ups, very few actually came to the books of our clients that we service. So, in terms of volume even if this was to turn out to be different, the impact on the business is that we do for our clients may not be significantly more. The only piece of business that we believe may get impacted is the individual businesses and the enrollment of that we do in federal exchanges through the Colibrium platform, there may be some impact, and we did mention that in earlier call as well. But there are no specifics available at this point of time and therefore, it is really difficult for us to make a definitive statement beyond what I just told you.

Mohit Jain: If it is Colibrium, the impact could be limited to 1% or 2% of your revenues is that assessment correct?

Partha DeSarkar: Yes, Colibrium is about $15 million of revenue on a full year basis and it is not that all the revenues will be impacted, part of those revenues will be impacted, if something like this happens. So, again as I said, we do not have definitive information on what is going to change on the enrollment process of these 18 million people and therefore it’s tough to say anything at this point of time.

Mohit Jain: Okay, one more Partha. On Canada and telecom particularly so, what is happening in this vertical and when do you think if at all it can also deliver or contribute to the growth for the company?

Partha DeSarkar: So, we have talked about the fact that we have signed a large cable operator out there.

Mohit Jain: In the US?

Partha DeSarkar: No, in Canada.

Mohit Jain: in Canada, okay.

Partha DeSarkar: Yes, so this is going to be to support their platform change through which they push digital content in the cable TV set-top-box for their consumers, it is a fairly

large order. We have already hired about 200 - 250 odd people. And that is just sign up. So, the revenues for that has only come in February, I think.

Srinivas Palakodeti: Or may be in March. So, the full year revenue impact will be available only next year.

Mohit Jain: So, you expect this to basically… And on the other clients like there is organic volume growth, there is…

Partha DeSarkar: Yes, there is a good volume growth on the other clients as well.

Mohit Jain: Okay. We should expect this to…

Partha DeSarkar: Next year we are a little bit more bullish on Canada.

Mohit Jain: Okay. And last is on margins, we are already at 12% which is a multiyear high for us. Do you think there is room to improve from here on or do you think 12% is fairly a reasonable margins for BPO companies?

Partha DeSarkar: See, I can only tell you this much that today as you know our revenues are 48% off-shore and 42% on-shore and the balance in India, right. So if we were to reduce this mix and push more off-shore, then off-shore the margins will jump. But given the current environment of protectionism that we see going up, this may actually end up being an advantage for us. So, the lever to improve margin is clearly increasing off-shoring. Now, there are two ways of reducing on-shore which is essentially divest the business or not grow the on-shore business. In the current scenario, I think both of those strategies do not make sense. So till such time that we have a substantial part of our revenues coming and being delivered on shore, the margin profile will be muted to the extent that it will to be comparable with our peer group who have larger off-shore businesses. But we believe as of this point of time that is actually going to help us more than hurt us.

Mohit Jain: You are already close to some of the mid-cap IT services margin whereas historically BPO has done lower and you are sort of trending up, whereas rest of the world is sort of trending down. So, that is why I was curious to know whether there is further scope for you to move up?

Partha DeSarkar: Did you understand the way I responded to you?

Mohit Jain: Yes, I think capacity is more or less is done and more off-shoring is not something which you would like to press currently.

Partha DeSarkar: No. The easy thing that I was saying was to divest on-shore. If I were to do that today I think it will hurt the business going forward.

Mohit Jain: Right. So, naturally you will not try to do that.

Partha DeSarkar: Yes, I will not do that, that is what I am saying, given the current scenario it not wise for us to divest on-shore. If we were to do that, the margins will improve. But today I think the fact that where big on-shore is going to help us more than it has historically been. So, it could be finally ending up being a blessing.

Mohit Jain: Understood. And why the 4Q guidance is being a little softer than 3Q, the healthcare growth will continue?

Partha DeSarkar: Most of the seasonal ramp up has already happened.

Mohit Jain: You are referring to Q-o-Q not Y-o-Y. When you say 4Q to be a little softer, you are saying, you are referring to it as a Q-o-Q.

Partha DeSarkar: Sequentially, Yes, sequentially, Yes. It will be marginally softer. See the rupee has also appreciated… So, if the rupee appreciation increases then we will have an impact, right.

Mohit Jain: No, I was thinking healthcare is looking good and telecom clients will add up revenues in the March quarter so, from that perspective your revenue should have been a little higher that was my assessment.

Partha DeSarkar: I do not want to read too much into this, I used the word marginal. So, let us stick to that marginal word. I do not want people to get concerned about that particular statement.

Moderator: Thank you very much. We have the next question from the line of Subhankar from SKS Capital. Please go ahead.

Shubhankar: So, just coming back to the outlook for quarter March quarter - seasonally this is a strong quarter for us. I mean it can be a little bit softer with respect to Q-o-Q but I wanted to understand more about the outlook with respect to the UK business which you have explained, I mean it will be a little softer because of the challenging environment in UK or is there anything else?

Partha DeSarkar: No, we mentioned that beginning of the year we were not able to renew one particular client's business that has had an impact. Even though on an overall basis, that client is a small client but the UK business itself is a small business. It is a very small client on a global basis but in the UK market, it was their third largest client. So, therefore there has been a capacity issue. So, capacity utilization has gone down because of that. The flip side of that is also we have been able to close down our centers in Italy, France, and Germany and Netherlands. So that way, we have been able to consolidate everything that we have now today into UK. So, till such time we fill up this capacity, the UK business will be impacted by lower capacity utilization. I would not read anything more than that to it.

Shubhankar: Okay, great. And so basically year-on-year, growth sequentially there may be a marginal growth because last quarter was strong for us, is that the right…

Partha DeSarkar: Yes, that is exactly what I am saying. The last quarter has been such a strong quarter, I just want to share the expectations of people who are on the call saying that quarter four will be marginally softer then this quarter three, that is why I am trying on the emphasis on the word marginal.

Shubhankar: Fully understood. And the margin which was great actually during December quarter, I mean not talking about the March quarter, I am just saying for FY2018,

do we have levers in place to improve this margin further or we have kind of reach to a level wherein scope for us to improve the margin?

Partha DeSarkar: No, there is still room for improvement. For example, if UK fills up again, margin will improve. As I said, some of the margin improvement that has happened in the second-half of the year has been driven by higher capacity utilization because of seasonality in business, right. As the seasonality wears away, Q1 and Q2 generally tends to be a little soft. So let us say we were to be able to replace that seasonal business with more steady business, then again utilization will not drop in the quarter one and quarter two, right. So, growth if I am able to grow and remove the seasonality that I have today, then margins will happen. If I improve the capacity utilization in UK, the margins will happen.

Shubhankar: Right. And you said last quarter we added five new logos and is that what I understood correctly, five new logos we have added in December quarter?

Partha DeSarkar: It was six.

Shubhankar: And for which vertical and which geography exactly… can you give some color to it?

Partha DeSarkar: One was a Canadian client that we talked about… then there were some in consumer electronics, some in healthcare, some in the payroll business, so more or less all over the place.

Shubhankar: And Partha, if you can give me some numbers. You said 8% constant currency growth I mean it was entirely organic growth for us, right there was no inorganic growth in December quarter?

Partha DeSarkar: You are talking about this quarter, right?

Shubhankar: December quarter I am talking about Yes.

Partha DeSarkar: Yes, it is completely organic 8.3%.

Shubhankar: What was the volume growth in this?

Srinivas Palakodeti: Yes, Shubhankar, everything is volume growth because for a mix of currencies the FX has had no impact.

Moderator: Thank you very much. We now have a follow-up question from the line of Rajat Setiya from Rare Enterprises. Please go ahead, sir.

Rajat Setiya: Sir, how has top 10 or top 20 client revenue mix changed over the last let us say three years to five years?

Srinivas Palakodeti: You know the relative positions may change because you are talking about three years to five years' trend, the relative position of some of the clients may have changed. But at an overall level, we have seen growth, if you take top 10, top 20 clients. All have grown unless there are some clients we decided to exit on account of profitability. If you go back about four-five years ago, the top 20 clients used to account for about 80% of our revenues… that has come down to somewhere in the range of 72% or 73%. So we are also seeing growth outside of the top 20… except that the top 20 are so big that even if they grew at a lower rate and the smaller ones grew at 100%, the needle would not move so visibly in a quarter-to-quarter basis.

Rajat Setiya: Right. The reason I was asking this question was I think in of your concalls you mentioned that your margins would remain low as long as you will grow, you will acquire new clients is that…

Partha DeSarkar: No, I do not think we said that. See, what happens is when we grow in the quarter there are ramp up costs associated with that, that is all… we did not say anything else. We have been growing along the way. See, this year if you look at it, we have grown and improved margin, right. So, I do not remember when we have actually made that statement.

Rajat Setiya: Okay, sure. So, maybe I will pull that up and then see.

Partha DeSarkar: No, so I want to clarify, the quarter that there is a ramp up the cost comes first, the revenue comes later, right Yes, that is generally two quarter, two sequential quarter issue So, if you end up with signing up a client… for example, this Canadian client has come to me and the work will start in February right. So initially I have hiring cost, training cost and all of that and the client will go on stream let us say mid-March. So the revenue I will calculate is only for 15 days. But if you look at it, most of my cost is there in quarter four but if we look at quarter one of next year that is when we will have the full year impact of revenues right. So, that is what I would have meant.

Rajat Setiya: Yes, maybe I misinterpreted it. If we compare ourselves with the competitors, our margins have been lower than what our competitors are at. So, anything you would want to explain may be the kind of work we are doing is different or anything else?

Partha DeSarkar: Yes, I think, I tried to explain that in one of the earlier questions. If you look at our revenue mix 52% comes on shore, 48% comes offshore, okay. One of the things we have been able to successfully do is increase offshore as a percentage of revenues from 34% to about 48% in the last two-three years right. Now, if you look at our business mix, we have larger proportion of revenues coming from on-shore as compared to our competitors, okay. That is why the margin that you get to see is a weighted average margin of on-shore versus off-shore and I was trying to explain that given the current moves towards protectionism, taking jobs away from onshore geographies may not be the wisest thing to do. The fact that we would create jobs on-shore may probably stand us in good step today.

Rajat Setiya: Okay. So basically it is the mix of high onshore that is causing the lower margin. …..

Partha DeSarkar: Correct.

Rajat Setiya: Okay, just one more question. I think for the first two quarters, our operational cash flows was around Rs. 220 crores and in this quarter total operational cash flows has been around Rs. 245 crores. Does that mean our working capital has increased in this quarter?

Srinivas Palakodeti: Yes, it would given that this is a period of fairly large growth and this also includes 31st December when a lot of people are on leave in North America. So you would see some increase in buildup of receivables on account of growth as well as the holiday season.

Moderator: Thank you very much. Our next question is from the line of Akansha Jain from Nirmal Bang. Please go ahead.

Akansha Jain: Sir, I have just missed your point on the utilization levels, so I just wanted to know what is the current utilization level that we have?

Partha DeSarkar: So, it has improved. In quarter two it was 85%, it is now about 88%.

Akansha Jain: So this is for all the geographies or it is just for the North American?

Partha DeSarkar: Overall.

Akansha Jain: And sir, what was the utilization level year-on-year?

Partha DeSarkar: I do not have that number readily available. It will be lower than 85%. Quarter two was 85%, we are now at 88.2% so sequentially it is about 300 basis points improvement in utilization.

Moderator: Thank you very much. We have the next question from the line of Balram Singh from Vibrant Securities. Please go ahead.

Balram Singh: My question is on Canadian business, the first one why did we de-grow, could you throw some light on that? And secondly, what is the rationale on work at home which we are trying to establish. Has someone else done that amongst any of your competitors and what is the long-term implication of that business on our margins on that part?

Partha DeSarkar: You want to repeat the de-growth question. What are you trying to saying on de-growth I did not understand that question.

Balram Singh: So, the Canadian business we have de-grown Y-o-Y basis.

Partha DeSarkar: Okay.

Balram Singh: What is the reason for that and secondly, the work at home model what is the implication of that on the business in terms of margins?

Partha DeSarkar: So, a part of the business has actually gone off-shore to our Philippines location that has contributed to that. On the work at home what I would like to say is basically its a new technology that we are offering. In Canada, we have had struggles of hiring people and therefore, this technology allows us to take consultants on a part time basis who can work from home at times when they are able to work. This technology will improve our utilization, we do not have to hire full time people and pay them for the full day when the work is only for half day. This technology has been used by some people and it is still a new technology, I would say this technology is about five year-old technology. For us, this is new and we want to deploy in Canada because it has been challenging hiring people in Canada.

Balram Singh: But is there issue with adoption with clients or are they okay with this?

Partha DeSarkar: Yes, clients are okay.

Balram Singh: So, can it be used in some other geographies as well I mean can the entire model of BPM business used going forward, is it popular?

Partha DeSarkar: It is popular, it is reasonably popular in North America, it is not very popular in UK and it is not used at all in India.

Balram Singh: Okay. So, it is probably North America - you mean in US?

Partha DeSarkar: Yes, US and Canada.

Balram Singh: So, do we use this in US this model?

Partha DeSarkar: Yes, not a large number but yes, we do.

Balram Singh: Okay. But overall in the bigger picture do you think let us say it can be big thing work at home stuff or not?

Partha DeSarkar: It can because if we can increase this, it improves the capital efficiency because we are not having to build seats nor are we having to invest in technology infrastructure. So it will improve the capital efficiency of our growth.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. R. Ravi for closing comments.

R. Ravi: Ravi here. Thank you to all the participants for joining us on the conference call. If there are any further questions or clarifications about the Q3 FY 2017 or on the nine months FY2017 financials, please e-mail me or Pala the CFO and we will be more than happy to get back to you. This is Ravi signing off on behalf of HGS management. Thank you.

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

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