"Hinduja Global Solutions Conference Call to Discuss
Q4 FY20 and FY20 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Hinduja Global Solution's Q4 FY 2020 and FY 2020 Post Results Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode as 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 press '*' then '0' on your touch tone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. R. Ravi -- Vice President, Head of Investor Relations. Thank you, and over to you, sir.

R. Ravi: Thank you, Faizan**.** Thank you, ladies and gentlemen, I, R. Ravi -- Head of Investor Relations at HGS, wishing you all a very good evening and a warm welcome to the fourth quarter and financial year 2020 results post results conference call.

To discuss the quarter four and the full year results, I am joined by Mr. Partha DeSarkar – Wholetime Executive Director and Chief Financial Officer and Mr. Srinivas Palakodeti -- the Global CFO.

Before we begin the conference call, I would like to mention that some of the statements made and during the course of today's conference call may be forward looking in nature, including those related to the future financial and operating performances, 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 maybe forward looking in nature and may involve risks and uncertainties.

Before I hand over the call to Mr. Partha DeSarkar, HGS will be declaring its Q1 FY 2021 results shortly, so requesting the participants to ask questions pertaining only to Q4 FY2020 and full year FY2020 and business performance.

Now I would like to invite Mr. Partha DeSarkar to provide a perspective on the performance for this quarter and for the full year FY 2020. Over to you, Mr. Partha.

Partha DeSarkar:

Thank you, Ravi. A very good afternoon to all of you and thank you for joining us on the call today to discuss our fourth quarter and full year FY2020 financials and business performance. I hope you have had an opportunity to review our Earnings Press Release and the attendant Fact Sheets of the reported financials, which are available under the investors section on our website www.teamhgs.com, and as well on the BSE and NSE websites.

I would like to begin the call with a brief overview of the financials of Q4 FY2020 and full year FY2020, followed by strategic initiatives and operational performance. After that, I will hand over the call to our CFO, Mr Srinivas Palakodeti to discuss the financial performance in greater detail. We will then open the conference call for the Q&A session.

You may have been wondering why there has been a delay in HGS' announcing its results for Q4 FY2020. We faced severe disruption in our operations due to COVID-19 pandemic towards the end of Q4 FY2020 but were able to restore our operations fairly quickly by shifting a majority of our workforce to Work from Home (WFH).

The imposition of the lockdown from March onwards also saw disruptions to our administrative functions as well. As a result, the consolidation of accounts and the subsequent processes have taken much longer than usual.

Going forward, we expect to declare results, broadly as per the schedule we have followed in our earlier years.

COVID-19 Response: Let me give you a brief overview on how we have dealt with the COVID pandemic and the resultant disruption.

In order to ensure continuity of services to our clients, HGS set up a quick response team with representatives from key functions and leadership in March 2020 to respond to the ever-changing situations across the various countries where we operate. On a priority basis, the quick response team interacted with our clients for getting all the necessary approvals/ consents and simultaneously organised computers and connectivity to enable agents to Work from Home. As our onshore and offshore centers had to operate at reduced capacity on account of lockdowns and social distancing guidelines, our first focus and emphasis was to deploy WFH model across our geos.

Currently, a significant part of our workforce is working from home and the rest are working from our delivery centers and client locations, while following applicable social distancing norms. We have set up working groups and sub-work teams to seamlessly integrate and frequently fine tune the newly-devised distributed operating delivery model of WFH and 'in office' model.

Some details on what our teams are working on:

1. The client services team is constantly in touch with the clients to address their concerns with our delivery capabilities in the new virtual model.
2. The operations teams are ably managing operations through a combination of remote and office-based delivery. There is a significant focus on aspects such as productivity, quality, data confidentiality and network security.
3. You are aware that HGS was offering "Work@Home" solution with around 1,000 employees in North America for a few clients even before the pandemic. The expertise and best practices developed over the last couple of years has helped us significantly today. Recently, we set up a Centre of Excellence for enhancing WFH capabilities at a global level, as we foresee that WFH will play a bigger role in the post-COVID era too.
4. There's been a big shift in how we engage with employees, right from virtual hiring across geos and remote training – be it on boarding training or functional skills… or driving connect, motivation and well-being of our people through multiple touch points and communications.

Despite the disruption caused due to the lockdowns and social distancing norms, I am very proud of how our employees across geographical locations are showcasing their commitment to deliver quality services to clients from their respective homes. They have often gone beyond the contracted SLAs to help our clients manage their customers' expectations in a dynamic situation. In the initial period of the pandemic, some even stayed back in office for extended periods of time to ensure that services to our clients remained uninterrupted.

We have received encouraging feedback from our clients about the team's resilience and attitude while attending customer queries. I believe that HGS has done an outstanding job during this period and our performance will help us in expanding our engagement with existing and new clients.

However, the situation is still fluid. The virus is far from being under control and has continued to impact lives and economies all over the world. While people have learned to adapt to this extraordinary situation, there are still significant uncertainties ahead. We will have to remain very vigilant that we safeguard our employees, our clients and our business in these rapidly evolving times.

Coming to the Q4 FY2020 Financial Performance: Despite COVID-19 related disruptions in end-March, we posted a good performance in the quarter.

Revenues for Q4 FY2020 were Rs. 13,186 million, a YoY growth of 2.6%. The reported revenue growth was 2.6%, despite the exchange rate variations of 3.8%, due to businesses that we exited. You may recall that HGS exited the India Domestic CRM business in end-January 2020. Further during the period of February 2019 to July 2019, HGS had some revenues which were "pass-through" in nature. On a like-to-like basis, i.e., excluding the impact of businesses exited, Q4 FY2020 saw a constant currency revenue growth of 11%, comprising 6.9% of organic growth and 4.1% on account of exchange fluctuations.

EBITDA for Q4 FY2020 grew by 26.4% over Q3 FY2020 to Rs 1,881 million; EBITDA margins stood at 14.3% as compared 11.6 % in Q4 FY2020.

PAT for Q4 FY2020 was Rs. 448 million, 17.8% lower than Q4 FY2019. The drop in PAT was due to impact of IndAS 116, some one-time (exceptional items) and changes in deferred tax. Excluding these one–off items, the PAT would have been Rs 660 million.

Mr Palakodeti will go over this in detail in his section.

Financial Highlights of FY2020: FY2020 showed strong revenue growth, led by traction across both healthcare and consumer engagement services (CES) verticals.

During FY2019, we sold some contracts of the GuidePoint Business of HGS AxisPoint and in FY2020, we sold the India Domestic CRM Business. On a like to like basis, and excluding the impact of pass-through revenues mentioned earlier, the constant currency growth was 11.8%, with exchange rate variation contribution at 2% and the organic growth at 9.8%. Due to the business exits during the course of the year, the reported revenue growth was 8.7%, after factoring favourable exchange rate variations of 1.9%.

In FY2020, EBITDA grew by 62.4% YoY to touch Rs 7,165 million. The EBITDA improvement was driven by improved performance of our businesses in India, Jamaica, the US, Canada and Element Solutions LLC (now known as HGS Digital LLC). AxisPoint Health also reported significantly lower losses in FY2020 as compared to FY2019. The introduction of IndAS 116 also led to improvement of EBITDA in FY2020. Overall EBITDA margins stood at 13.7% for the year as compared to 9.2 % in FY2019.

PAT for FY2020 was Rs 2,056 million, a growth of 16.6% YoY. Do note that PAT of Rs 2,056 million has been achieved after exceptional (one-time) items of Rs 211 million and adverse impact of IndAS 116. EPS growth for the year was 16.6%.

Sale of India Domestic CRM business was completed on January 31th, 2020. To give a quick recap, during quarter 3, HGS signed a Business Transfer Agreement on November 28th, 2019 with Altruist Technologies to sell the India Domestic CRM business for a consideration of Rs 400 million. In addition, the outstanding receivables, rental deposits of facilities in India and other eligible accruals to HGS would be recovered through working capital liquidation. Just to reiterate, as part of the transaction, HGS transferred 32 client contracts, about 7,000 employees and assets at 9 delivery centers across India.

HGS Digital: Our digital business has performed extremely well, growing around 24.7 % to account for 8.3% of overall HGS revenues in FY2020. Our digital offerings include analytics, business transformation, robotic process automation, social and digital care. We are seeing increased demand for digital services in the current business environment.

Element Solutions LLC (now renamed as HGS Digital LLC) is a core part of our digital business and has performed extremely well during FY2020. Its revenues grew over 18% to reach US $ 18.4 million while EBITDA more than doubled to US $ 3.3 million. In April 2018, HGS had acquired a 57% stake in HGS Digital LLC. We have increased our stake subsequently… in November 2019, we hiked our stake to 71.33%.

AxisPoint Health: During FY2020, AxisPoint Health recorded revenues of US $ 14.14 million. EBITDA losses in FY2020 were US $ 6.3 million as compared to EBITDA losses of US $ 10.3 million in FY2019. The reduction in losses is due to sale of some unprofitable contracts in FY2019 and rationalisation of costs. While the turnaround in the performance of AxisPoint is taking significantly longer than expected, we continue to focus on growing revenues and rationalising costs.

Healthcare Business: Our healthcare business continued to perform extremely well during FY2020. Healthcare as a vertical accounted for 53.5 % of the FY2020 revenues. We continue to service several Healthcare Payer and Provider clients from onshore delivery locations in the US as well as nearshore/offshore delivery centres in Jamaica, India and Philippines. HGS has developed deep domain expertise in the US healthcare sector and we expect to leverage this expertise in other markets such as the UK and Europe.

CES Business: Our Customer Engagement Services business comprises verticals such as media and telecom, consumer and retail, banking and financial services. The CES business has significant onshore business in the US, UK and Canada as well as offshore presence in India, Philippines and Jamaica.

The performance of our Canadian business continues to improve. After EBITDA losses during FY2016 and FY2017, near breakeven in FY2018, it turned EBITDA positive in FY2019. During FY2020, EBITDA of our Canadian business increased by around 60% to touch CAD 5.6 million. Our Canadian business has been a leader in WFH and we continue to leverage on this expertise as we scale up our Work from Home capabilities.

The US onshore business did see some profitability challenges in the first half of FY2020. The exit of some low margin accounts has helped improve the profitability of the US business in the second half of FY2020. Meanwhile, our UK business continues to win public sector business; a recent win includes supporting a public healthcare initiative of the UK government to combat COVID-19 pandemic.

Performance of our top 20 clients has been satisfactory: The strong growth in profitable revenues in FY2020 was led by demand in the Healthcare and Consumer Engagement Services (CES) verticals across geographies. While CES had ramp ups from the recent client wins of the previous quarters, Healthcare business saw healthy growth, driven by strong open enrolment (OE) season across US, Jamaica, Philippines and India.

The revenue from the top client for the financial year FY2020 was up by 19% YOY. Similarly, revenues from the top 5 clients for FY2020 were up 11.3% YOY, and from the top 10 clients for the FY2020 were up by 8.2% YOY. If we include the next 10 clients then take the top-20 clients revenue growth for FY2020 was 9% YOY.

Client wins: In quarter 4, HGS added five new clients across verticals for core BPM services and seven new clients for HRO/ payroll processing, which is mostly India centric. During Q4 FY 2020, we witnessed an increase in digital and business transformation deals. Many of our recent contract wins over the last 12 months, especially with existing clients, have components of transformation services embedded. We have deployed RPA as a Service for some of the clients in the Middle East, to be supported from Bangalore and if required from other delivery centers.

Taking into account the 32 clients transferred as part of the sale of the India Domestic CRM Business, HGS has ended FY2020 with 221 Core BPM clients and 686 HRO/Payroll clients.

It is worth mentioning out here that we do not have too many clients in the travel, tourism and the hospitality businesses. These are the three sectors that have been impacted the maximum in the pandemic. Since our exposure to this sector is low, we expect the impact to be low too.

HGS is constantly evolving as a company to make its clients more competitive and profitable. We continue to invest in building new solutions and capabilities in our chosen verticals and markets. Technology partnerships are our new value proposition… we have tied up with platform providers in the Customer Experience Transformation space and with product companies like Twilio, Sprinklr, etc. HGS has also strengthened its client-facing teams by bringing in senior leaders to lead business development in various geographies and help build a healthy and sustainable pipeline for non-healthcare business. Nevertheless, healthcare would continue to be our primary driver of revenue growth.

Many of the recent deals in the BPM space come with automation, analytics and high-end insights as an embedded component. It is a trend we are seeing as the clients look for partners who can enable them to win in an ever-changing market place. The clients want HGS to combine new-age technologies, with strong domain expertise to deliver enhanced customer experience.

HGS' transformative offerings are assisting clients to fix the snags faced between front office, mid-office and back office by rendering intelligent automation, machine learning and digital solutions. With WFH home options being provided currently, this interface will assist clients in executing the B2B and B2C fulfilment of orders.

HGS has made progress in getting clients on to the transformation journey, especially with the existing clients. This penetration gives us an opportunity to expand the addressable market as well as work on newer commercial gain share models. Our investment in Element Solutions was to strengthen our capabilities in the digital domain and I am glad to share that the Element acquisition has met with the desired objective. We expect business transformation led opportunities would drive higher value-added growth in the coming future.

As we see it, HGS is leveraging its capital and technology innovation to intelligently deliver value for clients and making a difference to millions of lives every day. We are focused to make HGS their strategic partner in their growth story and we have multiple such stories. With a client base of several Fortune 1000 companies in our client fold, we are reasonably confident of the future growth path.

To sum it up, the overall state of our core business continues to be strong and it has been further strengthened with the divestment of the lower profitable business. On a like to like basis, we have been able to report strong revenue growth for the past few quarters. During FY2020, we have been able to achieve higher EBITDA margins and higher PAT. We will continue to review our business portfolio and take appropriate actions to improve the overall profitability of the business.

Looking ahead, the uncertainties relating to COVID-19 will continue for better part of FY2021 and we believe that WFH model will continue in foreseeable future. We are making investments in increasing our WFH and Digital capabilities.

With enterprises looking to increasingly leverage technology today led by COVID-19 needs, HGS has realigned its strategy to support this demand. Our service offerings such as Nursing Triage Services, Work@Home and Digital services such as Social Care and Digibots to engage with clients' employees are opening up big opportunities for us. We expect this trend to grow further.

The COVID-19 pandemic and our WFH capabilities has helped us achieve several wins in both healthcare and CES verticals. While some of the wins may be of short duration/ project type in nature, we do expect several of them to convert into long term contracts.

Demand for our services from the healthcare vertical remains strong and we see strong demand for the Open Enrolment season in Q3 FY2021. With that, I will now hand over the call to Pala, to walk us through the Q4 FY2020 and FY2020 financials in greater detail.

Thank you all once again for being with us on the call today.

Srinivas Palakodeti:

Thank you Partha. A very good afternoon to all the participants in the call and thank you for joining us in the Q4 and full-year FY2020 post results earnings discussion. As in the past, we would like to start by stating, for this discussion, the EBITDA and EBITDA margins have been computed excluding forex losses and gains, which have been considered part of Other Income.

As required by Auditing Standards, we have published our financial results as Continuing Operations and Discontinued Operations. The Discontinued Operations refer to the India Domestic CRM Business, which we exited in end-January 2020. For the purpose of this discussion, revenues, profits and margins have been mentioned for the Company as a whole i.e., aggregating Continuing Operations and Discontinued Operations.

As we have been receiving enquiries about the financials of the standalone operations on, I will upfront give a brief overview of the bygone quarter and for the full year of the standalone operations.

The Standalone Operations comprise the operations in India and HGS branch in Philippines. On a standalone basis, HGS for Q4 reported total revenues of Rs. 5,995 million (including Rs. 97 million of Other Operating Income i.e. profits from the sale of the India Domestic CRM Business). Revenue growth over Q4 FY 2019 works out to 2%. This modest growth has to be seen against the backdrop of domestic CRM revenues that were available for only one month of Q4, as we transferred exited the business in end January 2020.

EBITDA margins of the standalone business were at 22.1% in Q4FY2020, as against 22.4% in Q4Y2019. For Q4 FY 2019, we had reversed excess provisions made of Rs 390 million under the Karnataka Minimum Wages Act. For Q4 FY2020, HGS reported 11% YOY growth in pre-tax profits, but the same could not seep into the post-tax level, as there were increases to taxes in Q4, thus net profit were modestly down by 2.6% YOY. Besides, adoption of IndAS 116 had a negative impact of Rs 168 million in the Q4 standalone pre-tax profits.

For the full year FY2020, on a standalone basis, HGS reported revenue YOY growth of 8.9% to Rs 23,911 million. The growth needs to be seen in the context that HGS did not have revenues of India domestic CRM business for the last two months of the financial year. EBITDA margins for FY2020 were at 21.2%, a significant expansion of 470 bps over FY2019.

Despite the negative impact of Rs 421 million on the FY2020 pre-tax profits on account of adoption of IndAS116, the pre-tax profits were up by 14.6% and at the post tax level, it was up by 9.2% YOY.

Now I turn to discussing the consolidated financials for the quarter. HGS continued its growth momentum of the previous quarters into the last quarter as well. Though COVID-19 led lockdown created disruptions to our operations in March, the revenues for the Q4 FY2020 were up by 2.6% YOY.

The reported YOY revenue growth was 2.6% in Q4, after factoring exchange rate variations of 3.8%, due to businesses exited. As you are aware, HGS exited the India Domestic CRM business at the end of January 2020, hence two months of Domestic CRM business were not available for the quarter. Further during the period Feb 2019 to July 2019, HGS had small percentage of revenues which were “pass-through” in nature. On a like-to-like basis after excluding the impact of businesses exited, HGS in Q4 FY2020 reported constant currency revenue growth of 11%, comprising 6.9% of organic growth and 4.1% on account of exchange fluctuations.

The EBITDA for Q4 FY2020 grew by 26.4% over Q3 FY2020 to Rs 1,881 million and EBITDA margins stood at 14.3% as compared 11.6 % in Q4 FY2019. Net profit for Q4 FY2020 was at Rs 448 million, down by 17.8% over Q4 FY2019.

The drop in net profit can be attributed to the impact of IndAS which had a negative impact of Rs 166 million at the pre-tax level, some onetime (exceptional items) of Rs. 31 million and changes in deferred tax of Rs. 204 million.

In the last 4 quarters, the pre-IndAS 116 business ROCE has seen a massive improvement from 14% to nearly 20%. Similarly if we measure the same after the adoption of IndAS 116, the business ROCE improved from 13% in Q1 FY2020 to 16% in Q4 FY2020.

Now I draw your attention to discussing FY2020 financials: For FY2020, HGS reported strong revenue growth of 11.8% in constant currency terms and the reported revenue growth was at 8.7%. During FY 2019, HGS sold some of the loss making or lower profitable contracts of GuidePoint Business of HGS Axis

Point, and in FY2020 we sold off the India Domestic CRM Business. If we compare on a like to like basis and after excluding the impact of "pass-through" revenues mentioned earlier, the revenue growth in FY2020 in constant currency terms was 11.8%, with exchange rate variations contributing 2% and the organic growth contributing for 9.8%.

Due to the business exits and terminations during the course of the financial year, the reported revenue growth for FY2020 was 8.7% %, after factoring favorable exchange rate variations of 1.9%. In FY 2020, EBITDA grew by 62.4% over FY2019 to touch Rs 7,165 million.

During FY 2020, we have seen improvements in the performance of our businesses in India, Jamaica, USA, Canada and Element Solutions LLC (now known as HGS Digital LLC). AxisPoint Health reported significantly lower losses in FY 2020 as compared to FY 2019.

The all-round operational improvement resulted in EBITDA improvement by 21.9 % over FY 2019 and EBITDA margins expanded from 9.2 % in FY 2019 to 10.3 % in FY 2020, before adoption of INDAS 116. The adoption of IndAS 116 also led to an improvement of EBITDA in FY 2020. Overall EBITDA margins for the full year FY2020 were at 13.7% as compared 9.2% in FY2019, an expansion of 450bps.

For FY2020, HGS reported a net profit of Rs 2,056 million, a YOY growth of 16.6%. It may be noted that the net profit of Rs. 2,056 million in FY2020 was achieved after one-off exceptional items of Goodwill and intangible impairment of Rs. 211 million and deferred tax reversal of Rs. 204 million. In addition, the adoption of IndAS-116 had a negative impact of Rs. 421 million at the PBT Level.

In the last 4 quarters, the pre-IndAS 116 business ROCE has seen a massive improvement from 14% to over 20% in Q3 and Q4. On Pre Indas 116 basis, Business ROCE for FY 2020 came in at 18.7 % as compared to 14.2% in FY 2019 i.e. an increase of 450 basis points. Taking into INDAS 116, Business ROCE came in at 15.8%.

Other Key Ratios:

1. For FY2020, we incurred a total capital expenditure of Rs 1,176 million, which is lower by Rs 764 million over the previous financial year.
2. Our receivable days, which were hovering around 83 days in the previous financial year, has been sharply brought down to 69 days in FY2020.

3. This twin impact had a significant positive impact on the FCF/EBITDA ratio, which improved from 2% in the previous year to 60% in FY2020.
4. Our gross debt (excluding lease liabilities) increased by just Rs 131 million during FY2020 over FY2019; however net debt witnessed sharp reduction of Rs 1,944 million over FY2019 year to Rs 734 million.
5. The reduction to the net debt can be attributed to the sharp increase in Cash and Cash Equivalents to the tune of Rs 2,076mn in FY2020 to Rs 5,308 million.
6. HGS in FY2020 paid total dividend of Rs 500 million (including DDT of Rs 80 million), thus the dividend pay-out ratio for FY2020 was 24%, as against 14% in the previous year.

Loans: I understand that some of you have expressed concerns about the increase of around Rs. 4,320 million of loans under current assets over 31st March 2019. As on 31st March 2019, there was a loan of around Rs 848 million under non -current assets, which has been reclassified as a current asset as on 31st March 2020. This loan has since been repaid.

Further, you may recall that HGS had sold off its India Domestic CRM Business in end January 2020. The funds received from sale of the business, liquidation of receivables and rental deposits have been deployed in the form of short-term loans. The loans with interest rate of around 8.30% per annum have since been repaid. These loans are part of the treasury management programme and are short term in nature, pending long term deployment.

Our endeavor to take more seats on Opex seat basis continues. No doubt because of the sale of the India Domestic CRM business, Opex seats as a percentage of total seats declined to 62% in Q4FY2020 from 76% in Q3 FY2020.

Our efforts to increase revenue productivity continue and at the end of Q4 FY200, we achieved an average monthly revenue per employee of Rs 106,042, up from Rs 98,711 in Q4 FY2019, an increase of 7.4%.

I now conclude my portion and throw the floor open for questions and answers session. I do wish to remind you all, that our Q1 FY2021 results will be out soon, so I would request the participants to limit the questions to our Q4 FY2020 performance and FY2020 overall performance.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ajay Sharma from Maybank. Please go ahead.

Ajay Sharma: Can you talk about the outlook for the year seeing basically in terms of the demand in your pipeline and also on the margins, how do you see with the rupee depreciating, you should be benefiting. So what is the kind of EBITDA margin target for this year? If you can provide some color of that? And secondly, can I confirm that whether the inter-corporate deposit is to a related party and has it been fully repaid? And where has it been deployed after the repayment?

Partha De Sarkar: Let me take the first part of the question and Pala, you can take the second part of the question.

Sir, you may be aware that we do not give guidance and historically, we have not given, and I will like to hold the same. Without getting into specific numbers, I can say that we are not free to discuss the Q1 FY2021 performance today, and you will have an opportunity to ask us Q1 FY2021 impact very soon.

But the outlook for revenues as of this point of time, and I am talking about my visibility as of August, seems better than what I had expected when COVID first hit us.

But I did mention in the call that there are significant uncertainties yet. We are still seeing a second wave of the virus hitting different economies. Unemployment is at its peak in the U.S. and all of these things have impact on our revenue numbers. So as of this point of time, while I can say that we had thought that the impact will be worse than what it is and we are probably a little better off so far as the first few months are concerned, it is very difficult to give you a definitive picture on how revenues and margins would look like for the full year given where we are with so many uncertainties all around us.

So with that, I am going to hand it over to Pala. Pala, the question on the loan, if you could answer that please?

Srinivas Palakodeti: Yes. So, the loans were to related parties and when you see the Annual Report, which will come out shortly, full disclosures have been made in the terms of the name of the party, etc. A full disclosure is being made as far as related parties are concerned.

Ajay Sharma: Can you confirm has it been fully repaid and where has it been deployed post the repayment?

Srinivas Palakodeti: Yes, it is an ongoing treasury deployment program. So loans were repaid and redeployed as required in the form of short term loans. These are ones that can be called back, pending long term deployment

Ajay Sharma: Has it been given back to the related party or outside of that?

Srinivas Palakodeti: No, as I said, it is a portfolio which keeps changing. So depending on the amount of money we require, we take whatever is required and redeploy. All loans as at 31st March 2020 were repaid.

Ajay Sharma: But can you confirm that right now, nothing is outstanding to the related party?

Srinivas Palakodeti: No, I am not saying that. So, I can confirm everything was repaid and redeployed as required after considering immediate funds requirement of the company. These are all liquid funds available for the company.

Ajay Sharma: So it could still be with the related party that is what you are saying?

Srinivas Palakodeti: Yes.

Ajay Sharma: Right. I know you are doing for treasury, but it brings a corporate governance issue actually; Because if you are sitting on so much cash, you might have to pay more dividend or unless you have some M&A targets in mind, although it is arm length, I know but still the market does not like it and as you have seen the stock price reaction today, so just a feedback.

Srinivas Palakodeti: No. I understand the feedback. Why is that a corporate governance issue when it is fully disclosed?

Ajay Sharma: I guess, end of the day you are still assisting a group company, right?

Srinivas Palakodeti: Well yes, it is treasury management that is earning us a much higher yield than what we will get from any commercial bank today.

Ajay Sharma: But what is the guarantee that it does not go bad basically? That could be also one of the concerns the market has from time-to-time.

Partha DeSarkar: No.

Srinivas Palakodeti: We lend to reputed-related parties.

Ajay Sharma: I am sorry.

Partha DeSarkar: No, go ahead Pala.

Srinivas Palakodeti: So I said it is a matter of assessment. We are pretty sure that these are parties that will return the money as needed… And we could get into a debate about the alternate uses of funds. People have invested in debt funds in the past and I do not want to get into what has been the outcome. From a corporate governance point of view, we have gone through necessary approvals from the Board, necessary disclosures have been made and it is our assessment that there is no risk and all our money will come back, while we are earning better than market rates from an interest point of view. Also, these are all short-term, while we decide in terms of the alternate use of funds, whether it is debt reduction or dividends or M&A. There are multiple usages, but you should not mix up utilization of short-term surpluses against long-term deployment.

Ajay Sharma: Okay. Just that the amount is very substantial as compared to your overall market value, right? Basically. I think that is where the concern is anyway. Yes, whether there is some approval of shareholders would be required for these kind of related party transactions?

Srinivas Palakodeti: No. We have gone through that whole process, so this is something which the Board has reviewed and taken into account what requires approval, and this clearly is coming under the approval of the Board. We have taken necessary approvals in the Board before deploying.

Moderator: Thank you. The next question is from the line of Pavan Nahar, Individual Investor. Please go ahead.

Pavan Nahar: So operationally nothing to ask. It continues on the point which Ajay mentioned right now. So, the way I understand is now you are not making any commitment going forward in the future, there could be more or there could be less funds deployed and given as ICDs to the group company, which then becomes an overhang on the stock.

Srinivas Palakodeti: Pawan, sorry, I missed the first part of your question. Could you repeat that?

Pavan Nahar: So I am saying the answers make us believe that it is now an integral part of your treasury strategy and this could be an overhang on the stock. That whenever there is surplus cash, it may be deployed or may be given to group companies right? I mean, is it just an open statement that is being made or that is being perceived now.

Pavan Nahar: And please correct me, I thought an approval is required in case a related party transaction is more than 10% of net worth.

Srinivas Palakodeti: Okay, let me check. I think we are pretty clear that we have taken necessary approvals before making any transactions. So that is one thing we have gone through. And we have taken approvals from the Board to do this transaction, we are within the limits prescribed by the Companies Act.

Pavan Nahar: You know for the related party transaction without majority of minority approvals.

Srinivas Palakodeti: I can check, I do not have it offhand, but this was examined in detail before we did this transaction. Second, there is no specific view. This was a surplus at that particular point of time, which has got deployed. And as I said, we will go back to the Board in terms of alternate usage of the surplus cash, whether it is debt reduction or dividends or M&A… that is something which we will go back to the Board for discussion. So that is all I would like to clarify.

Pawan Nahar: No, you have already gone to your Board right? I mean why would you go back to your Board and you are saying your Board has approved, the CEO has approved, the CFO has approved, right, and to all of us as outsiders, it comes… In fact, I would now like to believe that this may have been a material reason for you to have disclosed your March quarter results right now. Otherwise, I was surprised that you all must be having very good MIS, right? Why would you be disclosing results, anyway so that is diverting. So my point or my request still is that it just does not appeal to us as outsiders to have this transaction or to say that it might continue. Give the dividend, I mean you have got Rs. 600 crores of debt or Rs. 500 crores of debt to repay that. Look probably, I understand that all of you are professionals. But I really hope that the independent director, something is done about it, something needs to be done about it. Thank you.

Srinivas Palakodeti: Thanks, Pawan.

Partha DeSarkar: So Pavan, I can only say dividend has been doubled. It says the rate of 24%**.**

Pawan Nahar: The dividend has not been doubled, the dividend was cut sharply right and it is now being restored, it has not been doubled. I am sorry, you all are professionals, I respect the operational numbers, right? But as the CEO and as the CFO, right even more than the independent directors and even more, why is that disclosure coming now considering that this transaction would have happened in the March quarter? It is a material transaction as a percentage of your net worth Rs. 400 crores of loans; Rs. 430 crores of loans on a net worth of what, Rs. 1,600 crores or something like that?

Srinivas Palakodeti: Yes.

Pavan Nahar: So it is a material transaction, why would you not disclose it? Anyways, the request is that it will be good if this can be sorted. I mean the promoters have other revenues, including pledging shares whatever I mean of course, they are knowledgeable and respect on the way overall things have shaped up. But this is completely out of the box March quarter results, material disclosure only coming now.

Partha DeSarkar: Okay. We heard you and we will consider what you had to say. But I want to just go back to facts. The fact is that dividend has doubled, it has moved from Rs. 10 /share to Rs. 20/share, so that is the fact and I place facts on the table for you to consume it.

Pawan Nahar: Sure and look, operationally, happy with the way things have shaped up, right? But you know it.

Partha DeSarkar: Yes. I have heard your feedback, Pawan. So I am not saying that okay, your feedback is falling on deaf ears. I will not say that. I have made our point of view to you, you made your point of view. We have disclosed whatever disclosures are required, so there is no hanky-panky out here. Anyways let us move on, I have understood your feedback.

Pavan Nahar: It has to be disclosed, right? And it is just that it is being disclosed now, right? I mean, it is not a question of disclosure, it is a question of the transaction. I mean, disclosure has to be made. It is a question whether the transaction should have happened? But I leave with that.

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

Subhankar Ojha: So Partha and Pala, I also have exactly the same concern and nothing really on the operational aspect of the company, but this ICD amount is significantly high. I just want to express my concern that this disclosure has come to all of us as a shocker actually. And that too, it has come so late actually, so that is all and I hope that you will seriously look in to this matter.

Partha DeSarkar: Any other questions, Subhankar?

Subhankar Ojha: No.

Moderator: Thank you. The next question is from the line of Naman Purohit, Individual Investor. Please go ahead.

Naman Purohit: So actually on the margins front, it is very disappointing. If you look at the employee costs, count was 45,000 in December 31st and the employee count now is 37,000… yet the employee costs have gone up, could you provide the reason for that?

Srinivas Palakodeti: Yes. So you are comparing which quarter to which quarter, if I may ask?

Naman Purohit: Yes, I am comparing Q3 to Q4.

Srinivas Palakodeti: Correct, so fair enough. Q3 and Q4 - there is an increase for sure… one of the things is due to exchange rates, because we have significant number of employees in our overseas geographies. The cost gets translated into rupees. Second, when we look at quarter ended March 2020, you would have total costs that include for one month, the cost of the India domestic CRM business, and also, there were some related costs of some employees who stayed over and who left during the quarter. Third, there is also the period towards the end of March 2020 when due to disruptions of COVID, we had employees on rolls. But while the work at home was being rolled out, there was a loss of revenue. So these are two - three drivers for a relatively high employee cost for the quarter ended March 2020 vis-à-vis the revenue.

Naman Purohit: Last point is not understandable. I mean, if they were working from home, why would the costs go up?

Srinivas Palakodeti: No, there will be costs, but not revenues. That is what I am saying.

Partha DeSarkar: They were not working, they were stuck at home. In the last two weeks of March when offices closed down, people could not come to work… we still had to pay them salaries, but there were no revenues because we were not able to activate work-from-home for the last two weeks.

Naman Purohit: I agree. But you had 7,300 employees also going off the books and savings of that would have also come in for those two months?

Srinivas Palakodeti: Yes, that ended in January.

Naman Purohit: Yes. So that benefit must have come in the February, March months.

Srinivas Palakodeti: Correct. But the revenues also went away right! Also, there were some final settlements, which are all done in the quarter.

Naman Purohit: Okay. Also, depreciation also has gone up substantially even after nine delivery centers being transferred. Why is that?

Srinivas Palakodeti: That is primarily because of account of IndAS; apart from regular depreciation, you have extra depreciation because of lease accounting. The way lease accounting is done, your rental costs will come down, but your depreciation and interest will go up. So, if you see the difference between the two quarters, there is impact between March 2019 and March 2020; you will see a significant increase in depreciation.

Naman Purohit: So this is actually is going to be the run rate now. Is that correct?

Srinivas Palakodeti: Yes. But also bear in mind that what we had to do in the quarter ended March… we had to procure a lot of new headsets, which are written off in the year in the moment you use them; that is the company policy. So extra impact of that on the depreciation because of the headsets as we rolled out work-from-home.

Naman Purohit: Okay. And in the discontinued operations part you have shown a PAT of Rs. 14 crores, is this for one month?

Srinivas Palakodeti: Yes, that is only for one month.

Naman Purohit: It is a very profitable business then… Rs. 14 crores is generating a PAT, why would you sell it? One month PAT is Rs. 14 crores, right?

Srinivas Palakodeti: Yes. But that also includes profit from the sale of the business, right?

Naman Purohit: Okay. You have added that into this, right?

Srinivas Palakodeti: Yes. The profit from sale of the business, but if you go back to our earlier transcripts, this was a business high headcount, where we have had a lot of challenges, a business which was prone to increases in minimum wages across states. So if you see the dip in profitability in FY2019, this business had a significant impact. So we improved the profitability of the business, changed the portfolio mix, but came to a conclusion that in the long-term, it would be a drag on our profitability and capital employed and hence, we sold the business in January 2020.

Naman Purohit: But this Rs. 14 crores you are saying includes the profit from the sale of business, is that correct?

Srinivas Palakodeti: That is right.

Naman Purohit: Okay. And regarding this loan that you have given to the related party, may I know which company has this been given to? Since you are saying that it is already disclosed the Annual Report?

Srinivas Palakodeti: Yes. There are two - three companies within the group.

Naman Purohit: So can you name them?

Srinivas Palakodeti: Yes. I will. Hinduja Group Limited, Hinduja Realty Limited, Hinduja Energy Limited.

Naman Purohit: Yes Okay. So I just heard the previous participants, so although you are saying that you took a legal recourse and you took permissions. Ethically and principally it is incorrect, it is highly incorrect that you actually rolled it out to a group company. In fact if you had paid-off the loans, the shareholders would have benefited.

Srinivas Palakodeti: Yes. You need to bear in mind that there are certain loans which cannot be prepaid. Like for instance, on the India balance sheet, we had US $ 20 million of external commercial borrowings and as per RBI guidelines, we cannot prepay such loans. And today, as per the RBI rule, if you take a working capital loan, the first bucket of 60% will be used again as a working capital demand loan and only then can you start drawing on cash credit, which you can pay in and out. So, you will always be in a situation where you will have debt and you may not have the ability to pay, because of the RBI restrictions for a loan like an ECB.

Naman Purohit: Yes, which I agree. But could you have parked it up in other liquid assets, rather than concentrating this much assets into one family group company?

Srinivas Palakodeti: Okay. I understand the point you are making, but I am saying you are in the business and you would have seen some of the pressure which some of the liquid mutual funds have also faced right? That money could have been at a risk depending on which liquid mutual fund it is. I mean because a fund is called liquid mutual fund, it is not necessary that the money is actually safe and several of investors have had to take haircuts.

Naman Purohit: So you could have put it in government bonds that is safer, why do…. .

Srinivas Palakodeti: Yes, okay. I take your point of what would be the best way. All I am saying is every instrument comes with certain risks.

Naman Purohit: So actually, earlier you said that this is for short-term this loan, how short term is this?

Srinivas Palakodeti: So I mean this money can come back at a week's notice.

Naman Purohit: So, but when is it actually going to come or is it up to you to call it back?

Srinivas Palakodeti: Yes, it is for us to call it back.

Naman Purohit: So in terms of corporate governance, can you just immediately, all of you can take a Board decision, go to the Board and take it back… because this comes out as very, very poor corporate governance.

Srinivas Palakodeti: I have heard your point, we will share this feedback with the Board.

Naman Purohit: Yes, please.

Partha DeSarkar: Yes. And if you ask me, that is your opinion, I do not know why you are saying this is the corporate governance issue. But anyway, you are entitled to your opinion. So I am fine with it.

Naman Purohit: It is not my opinion, and these are facts. Imagine if I own a business and there are other partners in it and I lend the treasury cash to my own relatives, would not the partners tell me that this is a corporate governance? And you say, but I took the permission. Permission is fine, but at the end of the day, there is a too much concentration risk on one family group, transferring the shareholders assets to one family group. And this group has already in the news for family fights, defaults happening in the U.S., etc. So it is really not to say that this is a very safe, etc. the rest you know what, where you have given and whom you have given this to.

Partha DeSarkar: Fair enough. That is your opinion.

Naman Purohit: No, it is not opinion. This is a fact, given a live example. It is not an opinion, it is a fact, and you are transferring the shareholders assets to a private group company with a large concentration risk in one group. If there is a default then there is no going back. That is all from my side, I mean there is no answer from you anyway.

Moderator: Thank you. The next question is from the line of Anurag Basu, Individual Investor. Please go ahead.

Madanlal: Sir, my son Anurag joined, but later I came to concall to attend. I am Mr. Madanlal on behalf of Seethakumari.

Partha DeSarkar: Who is Anurag Basu?

Madanlal: Anurag is my son. He contacted because he has a lot of questions in his mind. Sir, can you please tell me one thing, at this time, how many loss-making subsidiaries we have? Sir, can you understand my Hindi language?

Partha DeSarkar: Yes, we have already disclosed that. We have talked about AxisPoint.

Madanlal: Sir, AxisPoint, you have purchased at nearly Rs. 82 crores, approximate I am calculating. On that, you have already spend Rs. 150 crores for two years; by what means you have purchased AxisPoint that you are not able to guide us what will happen in future, Rs. 250 crores already invested and we are not able to know what will happen in future about AxisPoint, when the company will come in profit? And you are not at all giving guidance about AxisPoint.

Partha DeSarkar: Yes. You are right, it has been more difficult than we thought it would be, so we are trying to solve the problem. We have not yet been able to solve it, you are absolutely right.

Madanlal: Sir, why then in 2015, you have acquired Colibrium. At that time, you know that due to Obamacare you had acquired that one. But elections were in front of you at that time, you acquired this company. From that time to now, how much loss have you made in Colibrium? Sir, why are you doing these types of acquisitions? Is this some indirect benefit to some other peoples?

Partha DeSarkar: Sir, you are being abusive and derogatory.

Madanlal: Sir, I am not abusing, I am just asking why you are acquiring this type of company to collapse the balance sheet? And one side, you are saying that we are doing good. Sir, rupee depreciated 20% do you know, sir?

Partha DeSarkar: Sir, the PAT has improved 16.6%. Have you noted that?

Madanlal: The 16.6% means, sir Rs. 80 crores is other income. You are not at all improving company at any point of time from last five years, I am holding these shares and nothing I have got from this company and whenever I ask this company, why you are keeping this loss making companies continuously and why you are all feeding these companies continuously.

Partha DeSarkar: So we will decide sometime soon as to whether we want to continue those operations or not. We have made various acquisitions. Right, we are feeding somebody else… You made these kind of comments right now, right? This call is being recorded.

Madanlal: Yes, sir. I have no problem, because what I am feeling as a shareholder, which is not at all getting any benefit from means this is Hinduja Global Company and one more thing, I am telling you, sir, when you have transferred Rs. 340 crores or whatever be the amount to your related companies, means sir this is what is going on. Means one side in Hinduja Group companies you are acquiring shares from the market in the March month at cheaper rate and the rate has been doubled, sir when they can invest companies money by investing in secure deal, why you cannot do it that one sir, then?

Partha DeSarkar: Sorry, I am not able to understand your question.

Madanlal: Sir, Hinduja Global people have started acquiring IndusInd Bank shares for Rs. 235 and at that time in March you have given them money, in March when the price of share was down.

Partha DeSarkar: I am sorry, I am not able to understand. Hinduja Global has done what?

Madanlal: The loan amount you have given to group companies, you have given loan amount to Hinduja Group companies.

Partha DeSarkar: No, you said Hinduja Global. So you have to be very clear about what question you are asking, right? Right now you told me you that we have gone and bought some shares of IndusInd Bank.

Moderator: Ladies and gentlemen, due to time constraint, we will take this as the last question. I would now like to hand the conference over to Mr. Ravi for closing comments.

R. Ravi: Thank you, Faizan. Again, Ravi here, thank you to all the participants for joining us on the call. If there are any further questions or clarifications about the quarter 4 and on the full year financials, please e-mail me or to our Pala, the CFO. And we will more than happy to get back to you. This is Ravi signing off on behalf of HGS management. Thank you. Thank you.

Partha DeSarkar: Thank you.

Srinivas Palakodeti: Thank you, everyone.

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

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