



*Hinduja Global Solutions
7th September, 2020*



“Hinduja Global Solutions Conference Call to Discuss
Q1 FY21 & FY20-21 Results Conference Call”

September 7, 2020

**MANAGEMENT: MR. PARTHA DESARKAR – ED & CEO
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Moderator: Ladies and gentlemen, good day and welcome to Hinduja Global Solutions' Q1 FY21 & FY20-21 Post Results Earnings Conference call. As a reminder, all the participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, 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.

Ramalingam Ravi: 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 first quarter of FY21 post-results conference call. To discuss the first quarter results, I am joined by Mr. Partha DeSarkar, Executive Director and Chief Executive 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 during the course of the call may be forward-looking in nature, including those related to the future financial and operating performance, benefits and synergies of the company's strategies, future opportunities and the growth of the market of the company's service and solutions.

Further, I would like to mention that some of the statements made in today's conference call may be forward-looking in nature and may involve risk and uncertainties. Now I would like to handover the call to Partha DeSarkar to provide his perspective on the performance for this quarter. Over to you, sir.

Partha De-Sarkar: Thank you, Ravi. A very good afternoon to all of you and thank you for joining us on the call today. I hope that you and your families are all safe and healthy. I would like to speak about our operational and financial performance, followed by strategic initiatives. 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.

The last five months have been extraordinary for all of us, both as individuals and businesses. When the pandemic initially spread and lockdowns were announced, we believed it would be a difficult period. HGS did face a few days with challenges in delivery and reduced client volumes back in April. However, we did really well to manage the situation by shifting to the work from home (WFH) model quickly. Today, we are operating almost at 100% capacity and delivering services as business as usual for our clients, both from remote working and from office locations, where allowed. A significant part of our workforce is currently working from home.

Our clients have been very appreciative of our employees' commitment to not just keep their processes operational but also their value addition to support clients and their customers with the new challenges they are facing. I am proud of TeamHGS' performance and their pride in execution in the last few months.

Coming to Q1FY2021, it's been an interesting quarter for HGS. Despite the COVID-19 pandemic led disruption to the global economic activity, HGS had a better than expected start to the

current financial year, in terms of revenues, profitability and free cash flow generation. On a like to like basis, the revenues were up by 8.7% for Q1 FY2021, with EBITDA margins modestly inching up in Q1 over last year's first quarter.

- In Q1 FY2020, HGS reported revenues of Rs 12,905 million, of which the pass-through revenues accounted for Rs 815 million and the India Domestic CRM business accounted for Rs 724 million. Due to change in contractual terms and disinvestments done, if we deduct the two from the Q1 FY2020 reported revenues, the pro-forma revenues for Q1 FY2020 works out to Rs 11,366 million.
- Hence on a like to like basis, revenue growth for Q1 FY2021 works out to 8.7%, of which the currency impact contributed 7.7% and the organic growth contributed 1%.
- EBITDA stood at Rs. 1,458 million. EBITDA margins improved to 11.8% in Q1 FY2021, from 11.6% in Q1 of last year. EBITDA margins improved despite lower revenue.
- Net profit for Q1 FY2021 improved by 21.7% over Q1 FY2020 and 9.8% over Q4 FY2020.
- This financial performance was the result of various factors, including higher volumes than expected, new win ramp ups and better cost management.
- The Board of Directors, at the meeting held on Sept 5, 2020, approved an interim dividend of Rs 6/share as compared to interim dividend of Rs 2.5/share for Q1 FY2020. This is about 20% higher on an annualized basis.

Let me talk about three key areas driving growth for us:

1. Our domain focus and portfolio mix gave a big advantage for HGS, resulting in minimal impact of COVID. As you all know, we are largely focused on Healthcare/Insurance and we also have substantial exposure to Customer Engagement Services verticals, which include Telecom, Media and Technology, Banking, Consumer and Retail, both in the

discretionary and non-discretionary segments. Each of these verticals and the sub-verticals are coping with structural changes, brought about by regulatory policies, technological changes, consumer preferences, regulatory policies, and off late, macroeconomic factors caused by the pandemic. I want to put it on record, HGS has minimal exposure to Aviation and Hotels or Tours/Travel related verticals.

In Q1FY2021, our biggest vertical – Healthcare posted a strong revenue performance, led by better than expected volumes in all large Payer clients, especially in June. Provider business did see some volume drops with some clients but saw good growth as well.

The Consumer Engagement Services (CES) segment saw growth across key verticals in US, Canada, UK, Jamaica and Philippines. Over the last few years, HGS has invested in strengthening our client relationships and enhancing our domain knowledge. We have long tenured partnerships with most of our clients. In these times of uncertainty, this client intimacy and our expertise has provided us with a competitive advantage in the market.

- We continue to support clients under regular SLAs.
- We have also won short-term contracts away from competition, who couldn't scale up or shift to WFH quickly, for supplemental work.
- The COVID-19 pandemic has given rise to several opportunities for expanding the scope of work across newer activities.
- For example, the rising COVID-19 cases has led to a decline in elective procedures at Providers/ hospitals, resulting in revenue losses and staff furloughs, they are now looking for lower administrative cost alternatives, which HGS can provide.

We will continue to pursue opportunities to help clients to navigate these tough times and to handhold those who go through the structural evolution in the market place.

2. **Winning momentum with clients:** In FY2020, we signed up with 59 new clients, including 29 for core BPM services, the highest in a year. The positive momentum continued into Q1FY2021, we won nine new

clients for BPM and five for HRO/payroll solutions. These cut across healthcare, consumer electronics, retail, communications, oil& gas and NGO verticals, etc. We expanded relationships with existing clients for various customer care and tech-led opportunities in the quarter. We also won contracts with 11 clients for our digital services.

The sales pipeline for all three segments – customer interaction, back-office and digital services is looking strong from a business demand perspective.

I want to mention here a cautionary message. Clients are very interested in deploying digital services in a bid to transform their processes. However, they are wary about long term engagements currently, given the uncertainty. Some of the deals we have signed are smaller contracts but we expect them to ramp up in coming quarters.

3. Scalable and agile organization: We are trying to build a scalable and agile organization with right skill sets to support our vertical and service line growth ambitions. We have now realigned our organization to an integrated vertical-service line structure, including leadership and decision-making. This is in line with our Right Shore, One Experience and Collaborative Approach (ROC) strategy that we have been driving in the past few years.

Over the last five months, we have re-engineered our work flow processes for a WFH model. Everything from hiring and training new employees, to engaging clients and associates, and delivering high quality services to how to sell and transition remotely, has been redesigned for a virtual distributed operating model.

The scale of the remote working model that we are driving is quite significant. For example, between April to July of this year, we hired and on boarded over 2,000 people globally through virtual channels, mostly for WFH roles.

We have also invested in creating a Work@Home Center of Excellence that focuses on sharing of best practices and leveraging learnings to deliver

an enhanced remote working solution to clients. It includes the W@H Leadership University, which has so far trained 2,100 global leaders across operations, Learning & Development, recruitment, security/compliance within weeks of moving majority of our workforce home.

To sum up, the overall state of our core business continues to be reasonably 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.

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. The sales pipeline remains strong, especially for the healthcare vertical. We see strong demand for the Open Enrolment season in Q3FY2021.

Also, while stay at home orders have been relaxed in the geos we operate in, the pandemic cases continue to rise and the coming months still look uncertain. We are taking a conservative approach on shifting back to offices on scale, based on social distancing guidelines and the need for safety measures. This means that majority of our employees will continue to work remotely for the next few months. Our goal is to continue to provide high quality services to clients, despite the mode of delivery, with no disruption.

In the interest of transparency, I also want to inform you that the Board of Directors in their meeting on September 5, 2020, has asked the company to review the overall corporate and business structure of HGS. The Board has received feedback that the structure is complex and needs to be simplified. The review will include relooking at the portfolio to identify gaps in our offerings and ways to bridge the gap through M&A, etc... The exercise will also review unprofitable businesses, loss making contracts and businesses, which may no longer have a strategic business fit.

The objective of this review is to make the company stronger, improve its financial and operating performance, and enhance the shareholder value.

On completion of the exercise, the Board will evaluate, the various options, implications and decide the future course of action. The review may require hiring consultants if required.

Before I conclude please note that –

- We at HGS are keeping a close control on the operating costs and as well as on the capital expenditure. Despite the pandemic, our FCF/EBITDA in Q1FY2021 was at 112%, as against 60% in FY2020.
- So any further business restructuring in the future can only improve the free cash flows, which can be used to prune debt, provided the debt covenants gives us the leeway.
- Just to add, we reported net cash of Rs. 63crores in Q1FY2021, as against Rs73 crores of net debt in FY2020.

With that, I will now hand over the call to Pala, to walk us through the Q1 FY2021 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 thanking you for joining us in the Q1FY2021 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 Jan 2020. For the purpose of this discussion, revenues, profits and margins will be mentioned for the Company as a whole i.e. aggregating Continuing Operations and Discontinued Operations.

I will start with an over view of the Standalone financials:

Standalone Financials:

The Standalone Operations comprise the operations in India and the branch in Philippines. On a standalone basis, for Q1FY21, HGS reported total revenues of Rs. 5,261 million, a drop of 6.3 % over Q1FY 20 revenues of Rs. 5618 million which included Rs 724 million of the revenues of the India Domestic CRM Business. If the revenues of the India CRM Business are excluded, on a like - to-like basis, Q1 FY 21 revenues have increased by 7.5% over Q1 FY2020.

The drop in revenues coupled with costs relating to Work from Home led to drop in standalone EBITDA margins from Q1 FY20 of 18.7 % to 16.8 % in Q1 FY 21.

Other Income in Q1 FY 21 of Rs 235 million comprised income from sale of SEIS scrips of Rs 172 million, income on treasury surplus of Rs 81 million, FX loss of Rs 39 million and other items of Rs 21 million.

PAT for Q1 FY 21 was Rs. 315 million, a drop of 11.6 % as compared to PAT of Rs. 357 million in Q1FY20.

Now I turn to discuss consolidated financials for Q1 FY2021.

Consolidate Financials:

Revenue Growth: On a Consolidated basis, for Q1Y21, HGS reported total revenues of Rs. 12,359 million, a drop of 4.2 % over Q1 FY 20 of Rs. 12,905 million which included Rs 724 million of the revenues of the India Domestic CRM Business.

You may recall that Q1 FY 20 had “pass-through” revenues of Rs 815 million and which did not accrue in Q1 FY 21. If the revenues of Rs 724 million of the India Domestic CRM and Rs 815 million of “pass- through” revenues are excluded from Q1 FY 20 revenues, HGS Revenues in Q1FY21 have grown 8.7 % - comprising 7.8 % due to exchange rate variations and 1 % due to volume growth.

During Q1FY21, HGS recorded improvement in performance in India, UK, Jamaica and other businesses. The profitability of the

operations in Philippines was adversely impacted due to Covid 19 disruptions and extra costs related to Work From Home being rolled out.

EBITDA margins have improved from 11.6 % in Q1 FY 20 to 11.8 % in Q1FY21 an improvement of 20 basis points. The improvement in EBITDA margins by 20 basis points, despite drop in revenues of 4.2 % on YOY basis reflects the improvement in the mix of the business.

Other Income in Q1 FY 21 of Rs 308 million comprised income from sale of SEIS scrips of Rs 172 million, income on treasury surplus of Rs 81 million, FX gain of Rs 314 million and other items of Rs 23 million.

PAT for Q1FY21 was Rs 492 million, an increase of 21.7 % over Q1 FY20 and a sequential growth of 9.8 %.

For Q1 FY21, the Board of HGS has approved interim dividend of Rs 6/share. From payout perspective it works out to 25 % of Consolidated Q1 FY21 Profits i.e., in the same range of 24 % (including Dividend Distribution Tax) of FY 20 Consol PAT.

This is the first full quarter post the sale of the India Domestic CRM Business. For Q1FY21 the healthcare vertical accounted for 56 % of total revenues. Share of telecom & technology stood at 14.1 %, consumer & retail at 11%, banking and financial services at 8.4%.

For Q2 to Q4 of FY21, we have forward covers of US \$ 72 mn at an average rate of USD/INR of Rs. 74. We also have USD/Php forward covers of US \$ 73 mn at USD/PhP of 51.6 – which is significantly higher than the current USD/Php Rate of 48.66.

During Q1 FY 21 HGS incurred capital expenditure of Rs 349 million which included Rs 43 mn of WFH specific capex in the form headsets and other IT & communications related infrastructure items. Capex for Q1 FY 20 was Rs 130 million.

During the quarter ended 30th June 2020, gross debt reduced from Rs. 6,042 million to Rs. 5,777 million i.e. a reduction of Rs 265

million. The debt of Rs 5,777 million comprises Rs 3,759 million of debt in overseas subsidiaries and Rs 2,018 million on the India balance sheet. The debt on the India balance sheet comprises Rs 1,416 million of ECBs, Rs 600 million of Working Capital Demand Loan and Rs 2 million of other working capital loans.

The ICDs outstanding at Rs 3,400 million as at 31st March 2020 have reduced to Rs. 3,150 million as at 30th June 2020.

Cash & Cash equivalent rose from Rs. 5,308 million, as at 31st March 2020 to Rs 6,406 million as at 30th June 2020 i.e. an increase of Rs. 1,097 million. Taking into the short – term loans given in the form of ICDs of Rs 3,150 million, HGS has net cash of Rs 3,779 million.

EBITDA to free cash flow generation which stood at 60 % for FY 2020 increased to 112 % in Q1 FY21 and similar to 111% in Q1FY 20.

As on 30th June 2020, Opex Seats stood at 37.8 % of total seats as compared to 38.3 % as at 31st March 2020.

Average monthly Revenue/ Employee which stood at Rs 101,738 for Q1 FY 20 has increased by 8.5 % to Rs 110,409 in Q1FY 21.

Increase in stake in HGS Digital LLC: During FY 2020, HGS had increased its stake in HGS Digital LLC (earlier known as Element Solutions LLC) from 57 % to 71.33 %. In August 2020, HGS has further increased its stake in HGS Digital LLC to 85.66 %.

I now conclude my portion and open the floor for question-and-answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.

Siddharth Oberoi: So last year your headcount was about 45,000 people and now it is 37,165 so there is almost 7,500 to 8,000 reduction in your employees. Yet your employee benefit expense is higher by Rs. 78 crores. Could you explain why?

Srinivas Palakodeti: Hi, this is Pala here. The quarter ended June 2019 had employees of the India domestic business and about close to 8,000 employees have exited the company when the business got sold off in January of 2020. So that helps explain the drop in the headcount.

Coming to the increase in the employee expenses , you need to factor into account the exchange rate given that we have significant cost overseas and if you look at the average exchange rate for quarter ended June the exchange rate is roughly about Rs. 69.4 and for the quarter ended June '20, it came in at about Rs. 75.4.

So there is an increase of about Rs. 6 for the dollar between quarter ended June '19 and June '20. The other point which we want to make was clearly this is the quarter where we had impact of Work from home, and especially in the initial period - we were in the process of moving IT equipment, getting the links going, getting the customer consents were required, in place. So obviously there was a period in that where the revenues were lower than expected, but we had employees to whom we had to pay full salaries because they were on the roll, and while we worked from home was being out. So you need to see the employee cost in that context especially when you look at from a percentage of revenues point of view.

Siddharth Oberoi: Okay, but how many of these employees do you pay in dollars that they were impacted by Rs. 6?

Srinivas Palakodeti: Yes, so if you look at the number of employees that we have out of that 37,000 which we have around 17,000 are in India, and about 9,000 are in Philippines. So between India and Philippines we have 27,000 and we would have in between US, Jamaica and Canada somewhere in the range of 8,000 to 9,000 and another 1,500 people or close to 1,600 people in UK.

Siddharth Oberoi: Okay also in the previous con calls you had talked about the tax rate coming to about 26% to 29% but if we see the tax rate this time again it is 34% to 35%. Why is that?

Srinivas Palakodeti: So it is a slightly technical question but let me try my best. So we have a branch in Philippines and there is what is called a tax paring credit between India and Philippines. Now in the periods when Philippines performs well or as per norm, we get tax benefits flowing into India.

In the current quarter given the costs related to keeping work from home, in the initial period we had to arrange for employee's accommodation and boarding so that they could stay close to the offices and work and subsequently transportation cost incurred.

The profitability of Philippines has been lower than what it should be, so clearly that has become a drag on the profitability both at the EBITDA levels and it also plays out at a tax level in a different way. .I hope this helps you understand.

Siddharth Oberoi: Not actually, actually no. It does not explain why a majority of the revenue that comes from other sources, at least in India you must be paying 26% whatever business?

Srinivas Palakodeti: No, we had some it comes close to 30% while we do have some SEZs, for most of them have the SEZ holidays have expired as we have completed the mandatory tenure requirement.

Siddharth Oberoi: Yes but then still it would be. If we have moved to the 22% plus surcharge tax surcharge slab, it still comes to 25%, 26% and if your foreign subsidiaries also for the blended would be still lower?

Srinivas Palakodeti: No, let me clarify. There is a choice of moving to a tax rate which is lower and give up all the concessions or we stay with the existing rates regime. As things stand we are staying with the older regime as far as taxation is concerned.

Siddharth Oberoi: Okay so but so what is the future thing? Is it going to remain at the 35%, or you are going to eventually drop to what others are paying like 26%, 27%?

Srinivas Palakodeti: No, that analysis is going on because we have some SEZ which are at lower rates and that is the international business obviously. So we will decide during the course of this year whether we want to switch to an ostensibly lower regime or stay with what we have taking into account the tax and the other accounting implications.

Siddharth Oberoi: Okay and also this other income of Rs. 30 crores that is coming, this is a Forex gain?

Srinivas Palakodeti: As I had mentioned it is a combination, out of about Rs. 31 crores there is a exchange gain of about Rs. 3 crores. There is an interest income of about Rs. 8 crores and there is Rs. 17 crores of income from sale of SEIS scrips.

Siddharth Oberoi: What is that, what did you mention?

Srinivas Palakodeti: It is a scheme which is there from the government where ,if you do export of services, you get certain incentives which you can avail or you monetize. So we have monetized.

Siddharth Oberoi: Okay so this is not recurring right this Rs. 17 crores, this is a one time?

Srinivas Palakodeti: Yes, there is a backlog so you have to apply, get benefits and then you sell, yes.

Siddharth Oberoi: So my point is it for just this quarter or is it going to accrue in the subsequent quarters as well?

Srinivas Palakodeti: No, it cannot accrue every quarter because it is all pertaining to scrips for a particular financial year.

Moderator: Thank you. The next question is from the line of Maan Vardhan Baid from Laurel Capital Partners. Please go ahead.

Maan Vardhan Baid: Can you share with us some more details about the restructuring that you have thought about and sort of give us some context or maybe some immediate areas that you have already identified which needs to be addressed?

Partha DeSarkar: So let me take that question. See on an ongoing basis we have been reviewing our full year businesses and Board has asked the company to review the overall profit and business structure. We do have a fairly complex structure with a number of foreign subsidiaries and holding companies so we are looking at that and seeing what can be simplified. We are also looking at what are the

gaps in our existing offerings and where to bridge the gaps through mergers or acquisitions and if possible and if necessary even divestments for unprofitable businesses and or non – strategic business ed.

So, our divestment for the India domestic business was Step 1 of that plan. Other steps got suspended because of the pandemic. So it is a little premature to talk more specific. The idea is to make the company stronger, improve its performance and enhance shareholder value and that is an exercise that we can talk now. When we have more details we will share, right now there is not more detail available.

Maan Vardhan Baid: If you could also update about the performance of axis point in this particular quarter?

Partha DeSarkar: Pala, you want to take that question?

Srinivas Palakodeti: Yes, so we continue to work on improving the performance of AxisPoint. There are two tracks one is on the cost reduction and other is in terms of growing revenues. So our efforts there continue on both.

While for the quarter ended June 2019 AxisPoint had an EBITDA loss of about Rs. 1.89 million. That came down by about a third, so it is the loss for the quarter was about Rs. 1.25 million.

Maan Vardhan Baid: Sort of just also if you could update us on the outstanding ICDs to the parent group, in this quarter where do they stand?

Srinivas Palakodeti: So as of 31st March it was Rs. 340 crores. As of 30th June it reduced to Rs. 315 crores and today as we speak it is about Rs. 215 crores.

Moderator: Thank you. The next question is from the line of Sathish Kumar Chandra, individual investor. Please go ahead.

Satish Kumar Chandra: One question which is lingering in my mind as a common shareholder is why there is a delay in publishing your results? Because companies like TCS or Infosys who has got thousands of arms, smaller divisions they are able to consolidate their results much early. So what is the problem there the company is facing?

Partha DeSarkar: I think that is a very good question and we are looking at how we can improve processes. Remote working is causing a certain amount of road blocks in consolidating accounts quickly. We took a long time for the last quarter. This quarter we have tried and in quarter 2 again we will try to improve sir, but very good feedback. I agree with you, we are working hard to make sure that we can announce results earlier.

Satish Kumar Chandra: Because that is all about the image of the organization. Because that sends out a wrong signal to the customers as well as, so I think you will go ahead and improve it.

Partha DeSarkar: We will try and improve it .

Moderator: Thank you. The next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.

Siddharth Oberoi: So this is regarding the answer of the previous question. You said what is the pending ICD, has it increased now?

Srinivas Palakodeti: Earlier it was Rs. 340 crores as of 31st March, as of 30th of June it was Rs. 315 crores . There was a there is further reduction of Rs. 100 crores today .

Siddharth Oberoi: Alright, okay. Also the EBIT is about 13% something, for which you do not give forward guidance. Is it possible in this kind of a business to achieve 16%, 17% EBIT margin on a consistent basis?

Srinivas Palakodeti: As we have said we cannot give guidance, so our objective is really to improve from an operational performance and as Partha mentioned earlier one of the objectives of this exercise which we talked about is also to see is there a business which is no longer strategic or which is having an adverse financial performance and see if such a divestiture would make sense to improve the overall profitability of the business.

Siddharth Oberoi: Right so may be when you restructure, my only point is there is 16% to 17% even possible in your kind of a vertical? Some of your competitors are doing that.

Partha DeSarkar: That is a little bit of theoretical question. The answer is clearly, yes, it is possible. We have some businesses which are low margin, but high return on capital employed. So when you look at the business purely from margin perspective you will have that kind of a problem as well because optically it will get consolidated and you do not get to see the fact that it has a got high ROCE. So that is a whole purpose of this portfolio review

Siddharth Oberoi: Okay regarding the cost reduction are you re-negotiating leases because there are lot of expenses wherein these costs, rentals?

Srinivas Palakodeti: Yes, so wherever possible we have been able to get concessions in terms of reduction in lease rentals. So that is an ongoing exercise. but we have not given up any leases, if that is your question.

Siddharth Oberoi: Sir, but since everyone is moving to work to home, do you find the reason to hold on to these leases may be probably prepay something penalty or something and cancel them would be more prudent?

Srinivas Palakodeti: We do not know how long this would last and it also depends - . we have got specific client clearances to work from home. If the clients want us , subject to it being allowed, to move back to work from office , that is something we have to look at and is not ruled out.

Siddharth Oberoi: Okay but as of now you will not be able to quantify the savings that can accrue from this?

Srinivas Palakodeti: No, it is difficult to say that right now.

Siddharth Oberoi: Not even in percentage, may be some broad figure?

Srinivas Palakodeti: No, if I give you a number that would be misleading so it is better that I do not give you a number.

Siddharth Oberoi: Alright. Okay just one question regarding revenues. One of your listed competitors has come out with a 10% guidance growth. Are you seeing any such thing where you can confidently say that this year from Rs. 5,000 crores revenue last year there can be some kind of a growth or it is just retention for the year?

Partha DeSarkar: Well, we do not give guidance so that is the problem, but we will see growth. I will not be able to quantify it on a number and that of course we have to understand the growth will come you will have to actually do some computation to reach at the net growth because you have to understand last year we had a full year of India domestic business, which have been divested. Those revenues are not going to come. So what if the growth happens will be on top of that, so there will be a dip on account of the divestiture on top of that will come organic growth. You understand my answer?

Siddharth Oberoi: Yes, I got the point here. So with the divestiture it was expected that the margins would actually shoot up, but what we are seeing is that the margin profile remains almost the same while the revenue is also kind of retained which is good that you have kind of retained the same revenue, but the margins while is very flat?

Partha DeSarkar: We expect it to improve. It has just been a quarter which has been impacted by our cost of setting up work from home. It has been a significant startup cost for work from home, which you have to understand has been very disruptive for our industry. So you are seeing all the cost for that coming into quarter 1.

Siddharth Oberoi: Okay so we can expect some kind of reduction there as well?

Srinivas Palakodeti: Yes, I think we should wait for a full year performance to assess the profitability.

Siddharth Oberoi: Alright, okay and this last question I have on this the loans since we are giving to prompters, so Rs. 215 crores is left, which has come down quite a lot. Is there is a timeline for getting the whole thing back?

Partha DeSarkar: Loans are on call. I will give you a little bit of background, there was lot of concern raised in the earlier call. So let me give a little bit of background.

Quarter 4 we had a rude shock, a significant chunk of our surplus funds were parked with a private sector bank, which was in the eye of the storm and those funds were frozen. So that was a very bad shock that we received and that is when we thought about working on ICDs came on.

What do you look for when you have surplus cash which you have today? We look for safety, liquidity and return and from all these perspectives we realized that when it is Hinduja Group backing it up with the prompters themselves being 67 shareholders of Hinduja of HGS. So for a safety concern we were pretty sure of that, so far as liquidity is concerned, these are short-term deposits can be called at any point of time and so far as return is concerned, the returns are much higher than average return that you can get. From these perspectives, these loans were given; however, it is not something that is going to be there for good. We are working on reducing the ICDs on a significant basis and we will see that reduced as a number going forward.

Siddharth Oberoi: So you know in terms of capital allocations now that you are saying this money is coming back and you are generating so much free cash flow, is there any plan to prepay some of these Rs. 577 crores of gross debt prepay it or reduce the interest cost?

Partha DeSarkar: Well, there are some conditions of prepayment, Pala can cover it. Most of these are term loans, so there is cost of prepayment which

may not be that attractive as an option. We have increased dividend you have noticed that, but anyway Pala, you can address this question.

Siddharth Oberoi: There is a Rs. 70 crores of working capital those can be probably addressed.

Partha DeSarkar: Pala, you can take that question.

Srinivas Palakodeti: My apologies. The landline also dropped.

Partha DeSarkar: Pala, the question was can we repay some of our term loans with the excess cash that we have? So while I explained why the background behind why the ICDs were done and all of that and the fact that we are collecting the money back as you go through the year, would you take up the question on repaying the loans that we have instead of putting the money in ICDs?

Srinivas Palakodeti: Yes, so most of the surpluses are in India and the bulk of the loans in India are in the form of external commercial borrowing of Rs 142 Crores

ECB loans cannot be repaid as per RBI guidelines. So that is the challenge that we have

As we mentioned in the earlier call, today if I take working capital financing, the first 60% has to be in the form of a working capital demand loan with a fixed minimum repayment period of 15 days or 30 days that may vary from bank to bank. So if I let us say borrowed on the 15th June and even if I had the cash surplus and I would not

be able to repay the loan if the period of the loan is about say 30 days, then I cannot repay before 15th of July.

Siddharth Oberoi: Okay, but out of Rs. 577 crores, Rs. 142 crores is ECB, but there is another Rs. 435 crores, my point is that you are generating so much free cash right now and is there a way you can?

Srinivas Palakodeti: Yes, at a qualitative level yes I agree we are generating cash, but these other prepayment on the other loans they may come with prepayment penalties.

Siddharth Oberoi: Okay, alright, but what about this money that is coming back from the ICDs, where are you parking them now?

Srinivas Palakodeti: Those are being deployed in the sense if there is nothing else we will put them with the deposits with the banks and bear in mind these are all short term surpluses as we mentioned earlier as well as today. We are doing a review of what are our offerings, where are the gaps, what do we build, we do we acquire, so we expect this to be deployed for M&A going forward.

Siddharth Oberoi: Okay, but the last two acquisitions did not pan out very well or in fact we did not turn around till now. So if you can I hope you are cautious of that?

Partha DeSarkar: That is actually not correct. The digital acquisition has done really well. The Element Solution has done really well. It is the AxisPoint acquisition that has not done well and yes we will be very cautious when we look at M&A targets.

Moderator: Thank you. The next question is from the line of Rusmik Oza from Kotak Securities. Please go ahead.

Rusmik Oza: I just want to understand since last quarter got battered because of this global pandemic, what could be the blended utilization levels in the last quarter and what it is as of now?

Partha DeSarkar: You are talking about manpower utilization?

Rusmik Oza: Yes, manpower utilization.

Partha DeSarkar: See we do not carry a bench sir so unlike IT companies who carry a bench, our utilizations are almost everybody who is hired works unless they are going through a training, so utilization would be very, very high.

Rusmik Oza: Okay. I was just trying to understand is there a positive impact this quarter as compared to last quarter because may be the business got impacted last quarter and we had only 1.1% growth in terms of excluding the exchange gains. So there is some positive impact coming in this quarter as compared to last quarter?

Partha DeSarkar: See you are very right. What happened was in the first month in April actually we struggled to make people productive especially in Philippines. So Philippines we actually were paying people without being able to get them productive. So that situation has improved significantly now. Through June and July and August we have been able to make most of Philippines enabled on work from home basis, so as a result of that the utilization has actually improved in quarter 2.

Because people are not sitting idle, they are able to do work. But from April and May mostly in Philippines we had significantly low utilization because we were not able to deploy people on work from home that effectively as we were able to do in other countries. In India we were able to do fine, Jamaica we were able to do fine, US, Canada, UK all these geographies we were able to do really, really quickly, but Philippines we had some struggles in April and May but that is behind us. So from that perspective utilization in quarter 2 will be better.

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

Srivallabh Bhaiya: In the opening remarks, Mr. Pala had said that right last year also you had distributed 25% of the profits and this quarter also you are distributing about 25% of the profit. So what will be the policy going forward because you will be having surplus cash flow coming way from ICD also. Are you going to improve on this 25% disbursement or is it going to remain like this or some other policy?

Partha DeSarkar: It is a good question. Now there is too many uncertainties right now sir. In this situation cash conservation is most important for us, so we will definitely have a hard look at what kind of cash we are generating and we will try to maintain the dividend that we have paid in quarter 1. Whether we can increase or not it is a little premature right now to say. We have to see how the second half of the year pans out.



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Moderator: As there are no further questions, I would now like to hand the conference over to Mr. R. Ravi for closing comments.

Ramalingam Ravi: Ravi here again. Thank you for all the participants for joining us in the post results conference call. If you have any further questions or clarifications about the Q1 FY21 results, please email me or to Pala, our CFO and we will be more than happy to get back to you. This is Ravi signing off on behalf of HGS management. Once again thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Hinduja Global Solutions, we conclude today's conference. Thank you all 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.