hgs

February 25, 2025

BSE Limited
Corporate Relation Dept.
P. J. Towers, Dalal Street
Mumbai 400 001.
Scrip Code : 532859

National Stock Exchange of India Ltd.
"Exchange Plaza"
Bandra Kurla Complex, Bandra (East)
Mumbai - 400 051.
Symbol : HGS

Dear Sir/Madam,

Sub: Transcript of Earnings Conference Call held on February 18, 2025

This is in continuation to Q3 and 9M FY2025 Earnings Conference Call of Hinduja Global Solutions Limited held on February 18, 2025.

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirement), Regulations 2015, we wish to attach herewith the transcript of Q3 and 9M FY2025 Earnings Conference Call of the Company which was group meet held on February 18, 2025.

The transcript can also be accessed using: https://hgs.cx/investors/

Thanking you,

For **Hinduja Global Solutions Limited**

NARENDRA SINGH Digitally signed by NARENDRA SINGH Date: 2025.02.25 12:56:42 +05'30'

Narendra Singh
Company Secretary
F4853

Encl: As above

Hinduja Global Solutions Limited
Q3 and 9M FY2025 Earnings Conference Call
February 18, 2025

Key Speakers:

Mr. Partha DeSarkar, Executive Director and Group CEO, HGS

Mr. Vynsley Fernandes, Whole-time Director HGS and Head of Digital Media business

Mr. Srinivas Palakodeti, Global CFO, HGS

Mr. Amar Chintopanth, HGS Media

Moderator: Good evening, ladies and gentlemen, a very warm welcome to the Q3 & 9M FY2025 earnings conference call of Hinduja Global Solutions Limited.

From the senior management, we have with us today Mr. Partha DeSarkar – Executive Director & Group CEO, HGS; Mr. Vynsley Fernandes – Whole-Time Director, HGS and CEO of the Media Business; and Mr. Srinivas Palakodeti – Global CFO, HGS.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Darshan Mankad from Adfactors PR. Thank you and over to you.

Darshan Mankad: Thank you, Rayo. Good evening, everyone. We welcome you to the Q3 & 9M FY2025 earnings call of Hinduja Global Solutions. Trust you have gone through results and investor presentation which are available on exchange.

Please do note that some statements in today's call might be forward-looking in nature. Owing to the nature of the business, it may involve risk and uncertainties, including those related to the future financial and operating performance. Request you to consider the present sectoral scenario while analyzing the results. Please do bear with us if there is any disturbance or call a drop, we will ensure it is resolved as soon as possible.

I now hand over the call to Partha sir for his opening comments. Over to you, sir.

Partha DeSarkar: Thank you, Darshan. Good afternoon, everyone, on the call, and thank you for taking the time to join us. We are presenting our financials for Quarter 3.

We have shared a slide deck that outlines the key points we will be discussing. Please refer to Slide #4, which provides an overview of the company.

The key point I want to highlight in this slide is that since our divestiture of the healthcare practice, this business has undergone a transformation. What was once a pure-play BPM company is now a tech-enabled transformation partner for our clients.

We are focused on optimizing the customer experience lifecycle, digital transformation, business process management, and the digital media ecosystem. So, it is no longer the company it used to be - a pure-play BPO player. Significant investments in R&D and M&A have gone into building technology capabilities in this company, which will augur well for this industry as it is being reshaped by major developments in artificial intelligence.

We will now take you through what we are doing in the subsequent slides.

I also want to highlight that since January 2022, when we divested our healthcare portfolio, we have grown the business. Our footprint has expanded in Australia, and we have also grown in South Africa, where we set up operations last year. We have continued to scale, and today, we have around 18,000 employees, operating from 10 countries with 33 delivery centers.

We also have a significant broadband and DTV business, covering 4,500 pin codes across India, with 1.2 million broadband subscribers and 4.43 million DTV subscribers.

Most importantly, we have a strong financial position, with approximately Rs. 5,000 crores in cash and treasury surplus, primarily from the divestiture in January 2022.

If you look at Slide #5, you will see the operating highlights for Quarter 3 and the nine-month period.

- Total income stood at Rs. 1,234.9 crore ($147 million).
- Operating revenue was Rs. 1,064.1 crore ($126.7 million).
- Total EBITDA was Rs. 234 crore ($29.9 million), with an EBITDA margin of 19%.

For the nine months of FY2025:

- Total income stood at Rs. 3,661 crore ($435.9 million).
- Operating revenue was Rs. 3,243.1 crore ($386 million).
- Total EBITDA was Rs. 532.6 crore ($63.4 million), with an EBITDA margin of 14.5%.

These are the key business metrics summarized in Slide #5. Now, let's move to Slide #6, which covers key business highlights:

We continue to see delays in decision making on several contracts. However, despite these challenges, we have secured multiple deals this year. The largest among them is a core IT services engagement with a banking company in the Americas. This is a significant contract that we won toward the end of last year. We have begun ramping up in Quarter 4, but the revenue impact will start reflecting in our books in Quarter 1 of the next fiscal year.

Additionally, we have successfully deployed HGS Agent X for a new public sector client in Canada as part of a complete contact center transformation project. This includes setting up their cloud-based contact centers, managing front-line operations, and providing other technology services.

These wins highlight our transformation from a pure-play BPO company to a key player in cloud, security services, contact center services, and AI. This transformation has been a defining journey over the last three years.

Our sales pipeline continues to grow. We have won significant new logos in Quarter 3 and Quarter 4. However, since these deals were closed late in the year, the revenue will start reflecting only in Quarter 1 of the next fiscal year. As a result, Quarter 3 and Quarter 4 margins may be lower, as most startup costs will be incurred in Quarter 4, while revenues will begin to flow in Quarter 1 of FY2026.

The other encouraging thing is that our onshore footprint has significantly reduced. As you know, onshore business typically has lower margins. We have successfully transitioned several customers—who were previously onshore-only—to offshore operations in the Philippines and, more recently, in South Africa. While this shift may result in a revenue decline due to lower offshore rates, we expect improved margins from our offshore centers.

Another key update is the simplification of our corporate structure—an important initiative we have undertaken. Over the years, we accumulated multiple foreign subsidiaries, primarily through acquisitions in North America. To streamline operations, we have merged five U.S. wholly owned subsidiaries into HGS CX Technology, a step-down wholly owned subsidiary of HGS. This merger was completed on February 14, 2025, at 6 p.m. Eastern Standard Time. This move will significantly reduce administrative overheads, including fewer board meetings, audits, and other compliance-related activities.

Now, regarding our expansion initiatives:

- South Africa: Our new geography in South Africa is performing well. You may recall that we opened this center in Quarter 3, and demand has exceeded expectations. Initially, we secured two floors, but based on current demand, we have signed up for two additional floors, bringing the total capacity to four floors with approximately 360 seats. Revenues from this center will be reflected in our books starting next fiscal year.
- Bangalore: We have also expanded our footprint in Bangalore, adding an additional floor—the 10th floor—on top of our existing corporate office. This new space will house our AI Hub and support center for the banking client whose business we recently won. This is another significant step in our transformation from a labor-driven BPO provider to a technology-led business transformation partner.

- Waterloo, Canada: I am pleased to announce that in April 2025, we will inaugurate our first center in Waterloo, Ontario, Canada. This center will serve a public sector client for the Government of Ontario. This is again a hybrid sale that we have done which is a combination of cloud, security services, AI, and HGS Agent X services.

These developments reflect exciting times ahead for the next fiscal year.

We will talk about Slide #9, which focuses on our sustainable, technology-driven business model. Today, our business stands on three towers. The right extreme tower is the traditional CX business, which has been our foundation since 2000. This segment has headcount-based contact center operations, we're now transforming it to AI-supported automation. We're driving costs down through global shoring, reducing our onshore footprint and increasing our offshore footprint. Additionally, most contracts that were previously structured on a full-time equivalent (FTE) model, we're trying to transition to transaction-based pricing, that gives us an upside if we're able to deliver more through automation.

On the extreme left hand side is our tower of our technology services, which began with our acquisition of Element Solutions in 2018, a company based out of Austin, Texas in the US. Since then, this business has grown significantly, reaching nearly $19 million in revenue from the low teens when we acquired it. We embellished that and did another acquisition of TekLink in 2023 has further strengthened this portfolio, and we have now fully integrated it into our operations. Our focus is to move beyond project-based revenues to managed services model that provides recurring revenue.

I talked about the BFSI client, which is a complete IT outsourcing or GCC engagement. We are also building new capabilities in AI-based development and implementation services.

What is most important to understand is the middle tower—digital operations, which involves transitioning traditional BPM services into verticalized AI-driven Platform-as-a-Service (PaaS). This includes AI-based unattended customer service (CX), such as chatbots and Intelligent Voice Assistants (IVA), AI-driven process management solutions, and AI operations like data tagging and labeling. This represents the convergence of our two extreme pillars—technology services and traditional CX. Our focus in the middle tower is on transforming our BPO business through technology, and we are seeing strong momentum as we successfully sell these solutions to our existing clients.

As a result of this shift, we are experiencing lower revenue in the short term, but our margins will improve over time as these services are technology-based, subscription-based, and largely offshore, which typically yields better margins. Additionally, automation will enable us to drive nonlinear recurring revenue growth.

The two wins that I mentioned earlier have started in Bangalore, one of which is for one of the largest banks in the Americas. This bank serves over 500,000 customers across 20+ countries and faced challenges related to core IT capabilities, execution, and innovation.

We have been servicing this customer from a BPO perspective, managing their call centers. However, we pitched our technology services to them, and I am pleased to share that we have secured a multi-year, multi-million-dollar deal.

To support this engagement, we are hiring technology specialists in Bangalore to deliver IT strategy and consulting services, cloud services, application development, automation, and cybersecurity services. Additionally, we will be deploying about 20–25 resources onshore in the client's operating region.

Encouragingly, we are seeing growing interest from other banking clients in North America for similar engagements.

I want to take a moment to talk about our government client in Canada. This client is a public sector agency responsible for transportation in the province of Ontario, including Toronto and the surrounding regions. It serves over 100 million passengers annually.

We have signed a six-year contract with them to provide technology services, including cloud contact center deployment, cybersecurity services, and AI-assisted agent services.

The reason I highlighted these wins is that it serves as a proof of the endorsement we have now received for our technology services, which we have been building since our healthcare divestiture.

Let's move to Slide #10. As mentioned earlier, we are transitioning from onshore to offshore operations, which will lead to a revenue decline in the short term, but we expect it to result in higher margins. Additionally, we are relocating all support services from onshore to offshore locations in the Philippines and India.

AI-supported CX, HGS Agent X, continues to be one of our biggest differentiators. The Knowledge Assistant & Training solution will be deployed across the Americas, and Agent X is now embedded in every new deal we sign. Multiple proof-of-concept projects are currently underway with clients to enhance conversational AI, and we are optimistic about securing long-term, license-based subscription models.

HGS Agent X, which we have discussed today, has been developed to support 250 global languages, including Indian languages, with human-like accuracy. It offers voice authentication and deepfake detection and can fully automate quality assurance (QA) by analyzing and rating calls—a process that was previously handled by humans. This automation significantly enhances efficiency and accuracy, reinforcing our commitment to AI-driven business transformation.

Slide #11 - Digital operations. I talked about this in detail earlier. Fully automated quality assurance is now in place. The Disclosure Bot has expanded beyond HGS agents to our clients' global operations, including their own centers. Vertical Platform-as-a-Service (PaaS) solutions are also progressing well, with a fully functional anti-money laundering solution being developed for banking clients, as well as loan origination automation. For telecom, we are developing a Customer 360 solution for hyper-personalization, and for consumer goods and retail, we are building a Gen AI-powered knowledge-based co-pilot solution. These are not horizontal solutions like traditional tech offerings; rather, they are highly industry specific. Over the last three years, we have made significant R&D investments, and Pala will discuss this in detail. I believe these AI-driven capabilities will position us well for the future.

Slide #12. Our endeavor is to transition from project-based services to managed services. While we have had some success, we acknowledge there is still work to do. Our efforts continue in IT outsourcing, Global Capability Centers, and cybersecurity, including our Security Operations Center (SOC). We have already signed up our first client for these services.

Slide #13. We have verticalized sales and account management across three key sectors to improve customer engagement: BFSI, TMT, and Consumer Goods & Retail. Additionally, we maintain a strong presence in the public sector, focusing on pipeline growth and industry specific solutions. We've also strengthened our pre-sales consulting team and formed strategic partnerships with major technology players, including SAP, Snowflake, Genesys, and KPMG, alongside collaborations with Microsoft and AWS. Furthermore, we have invested in AI Labs across the Philippines, India, and New York, ensuring we remain at the forefront of AI innovation.

Slide #14. We can make tall claims, but here are the facts. ISG, one of the top analyst firms, has rated HGS as a leader. We are positioned in the Leaders Quadrant, alongside billion-dollar firms such as Sutherland, Foundever, Teleperformance, WNS, and Genpact. These are well-established names in the industry, and despite being a boutique player, we are making significant strides and proving our capabilities.

Slide #15 – Awards. One award that I am particularly proud of is the Great Place to Work certification. As you know, talent is key to success in our business, and we have been certified in Canada and the Philippines. We are extremely pleased to have received this recognition in these two countries.

With that, I conclude my section and will now hand it over to Vyns for his segment on the Digital Media Business. Over to you, Vyns.

Vynsley Fernandes: Thank you, Partho, and I hope everyone can hear me.

Moderator: Yes, sir.

Vynsley Fernandes: Thank you. I'll go straight to Slide #17. The reason for including this slide is specific—there are several initiatives underway to drive significant broadband growth in India over the next decade. One of the key challenges the country has faced is the lack of penetration. Today, with over 300 million homes, only 40 million have wired broadband access. I am delighted that the government is taking proactive steps to accelerate broadband penetration, particularly in tier 2 and tier 3 markets.

Looking at Slide #17 and the Budget 2025 impact, one notable highlight is the customs duty cut on ethernet switches, which will help establish telecom infrastructure in rural markets. This is critical for us as an organization, as 60% of our customer base comes from tier 3 and tier 4 markets. We believe this initiative will have a tremendous impact. Additionally, the government's strong push to expand broadband connectivity to primary health centers and rural schools is an area where we are proud to contribute. These efforts align with our mission of bridging the digital divide, and as the digital media division of Hinduja Global Solutions, this remains a core focus for us.

Moving on to Slide #18, this slide reflects our key performance indicators (KPIs) and our commitment at the end of fiscal 2024. In our last earnings call, we were asked whether we anticipated growth this year. At that time, our response was that our primary focus would be on profitability and long-term sustainability. I am pleased to report that we have significantly increased our ARPUs.

To put this into context, 60% of our customer base comes from tier 2 and tier 3 markets, where broadband speeds are below 50 Mbps. This demonstrates strong growth potential. Our ARPUs, which stood at Rs. 169 per customer last year under our B2B2C model, have grown to Rs. 199 by the end of Q3 FY2025.

If you look at the graph on the right-hand side, you will see that our focus remains on building a sustainable business that is not susceptible to pricing fluctuations or periodic renewals - which is why the enterprise segment is so crucial. This segment continues to contribute 10% of total revenues as of December 31, 2024, reflecting a robust and diversified portfolio. Our enterprise business and managed services are gaining momentum, ensuring continued growth.

Further aligning with this strategy, we launched OneBusiness in December 2024 in Mumbai, targeting the SOHO (Small Office/Home Office) and SMB (Small & Medium Business) segments. This initiative has also shown strong early traction, reinforcing our belief in the expanding market opportunity ahead.

With that, one of the critical aspects to note is that we are now focusing on broadband as a sales-driven organization. The key foundational processes - putting the business on the path to profitability, ensuring a robust backend, and building a sustainable and profitable model - have largely been completed. Now, our primary focus is on profitable growth. This means building a strong, customer-facing sales organization to drive broadband expansion across the country, particularly in tier 2 and tier 3 markets.

This shift is reflected in Slide #19. As you all know, and I won't shy away from saying it, the linear television business is facing significant headwinds - whether it's direct-to-home (DTH), cable television, or other linear platforms, the challenges are evident. Instead of solely focusing on growing the business, our approach has been two-fold:

1. Retaining customers, ensuring a stable subscriber base.
2. Increasing Average Revenue Per User (ARPU) through a renewed push for our integrated product offering.

We are one of the few companies with the ability to bundle broadband and digital television at the linear level, and this unique advantage has helped us maintain stability in our digital television business.

To summarize, our growth driver is our broadband business, where ARPUs have grown close to 18% year-over-year - a significant achievement in the current environment and a strong indicator of future growth potential. The strong foundation supporting this expansion is our digital television business, which currently has 4.16 million subscribers. Here too, ARPUs have grown - from Rs. 116 in the same period last year to Rs. 122. Together, these two flagship verticals follow a clear, integrated strategy for sustainable growth.

I'm happy to take any questions at the end of this session. But for now, that concludes my section—I've kept it focused on the key KPIs.

With that, I'd like to hand it over to my colleague and Global CFO, Pala. Pala, over to you.

Srinivas Palakodeti: Yes, Vyns. Thank you so much. I hope you can all hear me clearly. I'm now on Slide #21, which covers our financial performance.

Revenue from operations for the quarter stood at Rs. 1,064 crore, with approximately 73% contributed by the BPM business and 27% from the media business. This distribution remains largely in line with Q2 of this year, though slightly lower than Q3 of FY2024.

On the depreciation side, there was a small sequential increase of Rs. 4 crore, but a decline on a year-on-year basis. Similarly, interest expenses saw a sequential drop, though there was a Rs. 7 crore year-over-year increase.

Looking at Other Income, we saw a significant increase, rising from Rs. 120 crore to Rs. 170 crore. This is reflected in our published results. For the quarter ending September, we reported an FX loss of Rs. 8.85 crore, whereas this quarter, we recorded an FX gain of Rs. 31 crore. That represents a Rs. 40 crore swing. Including interest income and other factors, our other income rose by Rs. 50 crore sequentially and Rs. 105 crore year-over-year.

At the PBT level, we saw an Rs. 80 crore turnaround, improving from a Rs. 40.7 crore loss in Q2 to a Rs. 41.2 crore profit in Q3. However, tax expenses increased significantly, including Rs. 19 crore in current tax and Rs. 31 crore in deferred tax, primarily due to timing differences and treasury income-related taxes in certain geographies.

As Partha mentioned, we have been investing approximately $2 million per year in the development of Agent X. While this has impacted margins in both past and current years, we remain confident that it will yield strong returns in the future.

At the PAT level, despite a reported loss of Rs. 8.6 crore this quarter, this marks a significant improvement from the Rs. 50.5 crore loss in Q2. The company's overall performance has improved considerably between September and December.

Moving to Slide #22. For the nine months ending December 2024, revenues were lower compared to the same period in 2023, primarily due to a decline in BPM revenue, although the media business saw an increase.

Out of the Rs. 3,243 crore total revenue, approximately 72% came from BPM and 28% from media. Depreciation remained flat at Rs. 400 crore, while interest expenses increased by Rs. 40 crore. Other income rose by Rs. 105 crore, and considering profits from discontinued operations recorded in Q1, YTD PAT stands at Rs. 102 crore, compared to Rs. 43.2 crore in the same period last year.

Slide #23 – Balance Sheet Overview. Total borrowings stood at Rs. 1,212 crore as of December 2024, down from Rs. 1,305 crore in March 2024 - a Rs. 93 crore reduction during the year. A sequential decline is also visible, which I will cover shortly. The company maintains a strong net worth of Rs. 7,830 crore as of December 2024.

Slide #24 – Cash Flow Strength. Our cash flow remains robust. For the nine months ending December 2024, we generated Rs. 272 crore from operations. Even after netting off CAPEX of Rs. 67 crore, our net free cash flow stands at Rs. 205 crore. This has comfortably covered cashflows including a Rs. 129 crore earn-out payment for TekLink in June.

Slide #25 – Overall Financial Position. As of December 2024, our net cash position stands at Rs. 5,152 crore. Borrowings declined by Rs. 44.5 crore during Q3, reducing from Rs. 1,257 crore in

September to Rs. 1,212 crore in December. This demonstrates a strong balance sheet and financial stability.

Slide #26 – Revenue Breakdown by Origination.

- 57% of revenue comes from the CX business.
- 43% originates from our digital services and digital media businesses.

Slide #27 – Revenue by Origination

- The US remains our largest market, contributing 24% from a delivery standpoint and 31% in revenue origination.
- Canada (12%) and the UK (13%) continue to be strong markets.
- India's contribution includes media, HRO, and digital businesses.

Slide #28 – Revenue Split by Vertical

- Tech, media, and telecom form our largest vertical at 53%.
- BFSI contributes 17%, while consumer & retail stands at 14%.
- Public sector clients, primarily from the UK and Canada, also make up a significant portion.

Slide #29 – Client Concentration

From a revenue perspective, our client concentration remains healthy:

- Top customer accounts for only 10% of total revenue.
- The top 10 customers contribute about 32%.
- Major BPM clients dominate the top revenue segments.

Additionally, Days Sales Outstanding (DSO) improved, moving from 60 days at the beginning of the year to 65 days during peak ramp-ups, and now back down to 61 days, positively impacting cash flow from operations.

That concludes my section. Thank you all for your patience and attention. I'll now hand it back to the moderator for the Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Nakul Dev from ND Investments. Please go ahead.

Nakul Dev: Thank you for the opportunity. I have a couple of questions.

First, the media business continues to pose a significant challenge in the company's turnaround efforts. Could you provide insights into the strategic initiatives aimed at enhancing its profitability? Specifically, what key measures is the company implementing to drive improvement and long-term sustainability in this segment?

Vynsley Fernandes: Thank you, Nakul, for your question.

One fundamental aspect to understand is that the media business is highly capital expenditure-driven, and this is not unique to our company - it's a common characteristic across the broadband and digital television sectors. That said, our primary financial metric for evaluating performance is EBITDA, and we are on track in that regard.

Now, regarding profitability and future performance, as I mentioned earlier, the key driver of profitability will be our broadband business, which continues to grow steadily. If you look at our ARPU trajectory, it has increased from ₹169 to ₹199. Meanwhile, our digital television business, which serves as our foundation, has also shown consistent ARPU growth. The combination of these two verticals positions us well to drive sustainable profitability.

I would also like to reiterate a key point from our last call - while the business is already generating operating profits, our bottom line is impacted by depreciation due to prior CAPEX investments for expansion. This includes strategic moves such as the acquisition of 7Star to strengthen our broadband footprint and infrastructure investments for national long-distance routes. However, we are on a clear path to break even at the PBT level, and while I won't put an exact date on it, we expect to achieve this within the next 24 to 28 months.

Regarding the key initiatives driving this transformation:

1. Expansion in the Enterprise Segment
   We have significantly increased our focus on enterprise customers, which were previously a small portion of our revenue. The enterprise segment offers two major advantages:
   - Higher ARPUs, given the nature of the business.
   - Long-term contracts (ranging from 12 months to five years), ensuring stable revenue streams and predictable cash flow.
2. Monetizing Existing Customer Base & Upselling
   - 60% of our current customer base is in the 50 Mbps or lower speed range, primarily in Tier 2 and Tier 3 markets.
   - Instead of acquiring new customers, we are focusing on upselling - moving customers from lower bandwidth plans (e.g., 10 Mbps or 30 Mbps) to higher-tier plans.
   - Additionally, we are leveraging our digital television customer base for cross-selling opportunities.

3. Strengthening Our Sales Organization
With all the foundational elements in place, we are now focused on building a strong customer-facing, sales-driven organization to accelerate broadband penetration across the country. Sales execution and market expansion are now our top priorities.

I hope that provides a clear picture, Nakul. Happy to address any follow-ups!

Nakul Dev: Yes, this is very detailed. It covers exactly what I wanted to understand. Thank you. Great. My second question is regarding something mentioned in the previous call - if I'm not mistaken, you had talked about the internet via satellite.

Vynsley Fernandes: Correct.

Nakul Dev: Can you provide an update on this development over the past quarter and what is its growth outlook in the coming quarters?

Vynsley Fernandes: So, Nakul, if you recall, we were hoping that the licensing process would be eased, and the Telecom Regulatory Authority of India (TRAI) was expected to work on a structure. Unfortunately, as of today, there's still some grey area around that aspect. The good news is that a couple of international players who were closely looking at India have complied with the necessary legal requirements to secure a license.

From our perspective, we are already engaged in providing services, as I mentioned to you. So, for us, it's just a matter of waiting on the sidelines for this to take off. Will it take off? Absolutely. Let me be clear - the government is very focused on bridging the digital divide. Whether it's tier 3 markets or rural areas, there's a strong push for digital inclusion across all parameters. I believe it's a matter of 'when,' not 'if,' we'll see some traction. But the key question we're all waiting on is timing. If I ever get an update before that, I'd be happy to share them, Nakul.

Nakul Dev: Understood. If I can squeeze in one final question, how much further could we scale in South Africa and how further do you think we can improve our revenues and profitability in the best case scenario?

Srinivas Palakodeti: Nakul, as you say, we started operations in the beginning, I mean, somewhere around June or July, and already the demand is strong for us to take additional space and expand capacity. Being offshore, we believe it will have better margins than what we would see if we were generating the same revenue in the US or UK. So that's what I would like to say broadly in terms of where we expect the business to go.

Nakul Dev: That is really helpful. Thank you so much for giving me the opportunity. In case I have any further questions, I'll join the queue. Thank you.

Vynsley Fernandes: Thanks, Nakul.

Moderator: Thank you. Next question is from Mithil Bhuva from Unlisted India. Please go ahead.

Mithil Bhuva: Firstly, I'd like to congratulate the management that Sagility is now a listed company with over Rs. 20,000 crore of market cap. Any comments on that from the management?

Vynsley Fernandes: As you know, it is a separate company.

Mithil Bhuva: No, I mean, we know that it has been sold, but still it was the healthcare unit, right, of HGS?

Partha DeSarkar: So, it essentially speaks to the inherent value of the businesses we have built, which often don't get easily recognized by the stock market. Even now, if you look at our stock prices, they don't reflect the core value of the business. You have to understand where the business stands, right? Let me use an analogy - if you don't mind one that's more day-to-day rather than business-related. If you're into gardening, you know that pruning a tree helps it grow back stronger. Now, once you've cut the leaves, that period of regrowth represents the healthcare business - it takes time to flourish again.

Similarly, we have transformed the company from a pure play BPO player into a technology player, and that kind of shift takes time. I understand the impatience and the concerns about revenue decline and profitability, and we've tried to address that. But what's happening in our business, how we're evolving, and how we're positioning ourselves for success in an AI-driven world - it all requires time. Just like with the healthcare business in the past, the true value will be recognized once the transformation is complete.

Mithil Bhuva: I had a couple of questions. Firstly, regarding the Rs. 5,000 crore cash on the balance sheet—this has been deployed in the group companies, namely Machen Dev Corporation and IndusInd Finance, with Rs. 2,000 crore in IndusInd Finance and around Rs. 1,000 crore in Machen Dev. Could you highlight whether this is long-term financing that has been provided to them or if it is short-term in nature?

Srinivas Palakodeti: These are primarily short-term. We have the ability to call back these funds as and when required. Let's say we were to make an acquisition then, and if we need the funds, these are available to be called back.

Mithil Bhuva: So, it can be called back anytime. So, it's a short term?

Srinivas Palakodeti: Yes.

Mithil Bhuva: And for example, Machan Dev Corporation, what will be the yield on the ICD?

Srinivas Palakodeti: Broadly speaking, for funds which are outside, we are in the range of around 6% plus in dollar terms.

Mithil Bhuva: Any areas where we want to deploy this particularly because it is a very significant amount. And any timelines within which we wanted to do this?

Srinivas Palakodeti: So, we continue to look for opportunities where there is business synergy, and we expect these to be primarily in the space of digital, AI, automation. That's the broad direction in which we aim to acquire new capabilities or technologies for our growth. Obviously, as and when a transaction happens, we are required to make announcements, and we will do so. At this stage, I cannot say anything more.

Mithil Bhuva: Okay, so the other question is on the DTV side. Are you planning to collaborate with a big celebrity who understands this business well? On the sales front, they know what sells. I see that for subscription pay channels, we paid around Rs. 540 crore last year, which was at the end of 2024. So, are we in any technical collaboration with a celebrity who understands the content business well?

Vynsley Fernandes: Sorry, Mithil, I didn't understand. In terms of celebrity, are you referring to an individual or something who can be a brand ambassador?

Mithil Bhuva: Yes, for example, if its Shahrukh Khan, so he understands the content so very well that what content sells actually, you know?

Vynsley Fernandes: Sure.

Mithil Bhuva: And last year we see that subscription pay channels are around Rs 540 crore. So, are we building any money on that or not? That's what I'm trying to understand.

Vynsley Fernandes: So, the content cost is purely for the pay channel content that we bring on board, right? For example, last year, this included Star Television, Viacom or Jio - channels like Colors, etc. - as well as Sony and Zee. All the pay channels have a content cost, which we distribute to our customers, who then pay us for the packages. Right, Mithil?

Regarding brand marketing, our business is mainly B2B2C. So, if we had a brand ambassador, the challenge would be significant what we term as 'marketing wastage.' I'll give you an example - if I advertised digital television in Mumbai, there would likely be a significant wastage because the cable operator that connects your home might be aligned to either NXTDIGITAL or a competitor. Even if you wanted my service and you're in an area serviced by a competitor, switching may not necessarily be possible. That's where using a marketing icon becomes a challenge.

On the other hand, broadband is something we've been focusing on. I'm not sure if you've noticed, but we've been advertising more over the last quarter. Instead of using a brand ambassador, we've taken a family-oriented approach. Our goal is to showcase that our brand offers something for everyone - whether it's a daughter doing her homework on a laptop, a grandfather helping with a recipe, or a mother and child playing a game together.

Our first priority is to establish that OneBroadband is a powerful brand that provides connectivity for the entire family.

Would we consider a brand icon in the future? Absolutely, Mithil. That idea is definitely still on the table, and I appreciate the suggestion.

Mithil Bhuva: Actually, I was not referring to the branding part.

Vynsley Fernandes: Sorry, Mithil. Maybe my answer was...

Mithil Bhuva: I'll just complete it—branding was not for marketing, but for strategy, like understanding what content our subscribers are really looking for, you know. Someone smart like Shahrukh Khan understands what kind of content really sells. So, I was just referring to that.

Vynsley Fernandes: Okay, got you. Duly noted.

Moderator: Thank you. The next question is from Amit Agicha from HG Hawa. Please go ahead.

Amit Agicha: Good evening and thank you for the opportunity. First of all, congratulations, and I sincerely appreciate Mr. Partha DeSarkar, Mr. Vynsley Fernandes, and Mr. Srinivas Palakodeti. The presentation was excellent, and the speeches you all gave explained most aspects very well. I truly appreciate the presentation.

My question is related to the use of cash. Does the company have any potential plans for dividends, buybacks, or investments?

Srinivas Palakodeti: As you know, we already completed one buyback in June 2023, returning about Rs. 1,020 crore of cash to shareholders. Most of the funds we now have are abroad, and conducting another buyback would require bringing the money to India, making it tax inefficient. Additionally, with the changes made to that rule last year, buybacks are no longer as beneficial from a shareholder perspective. So, we're not sure that's the best way to utilize the funds. Instead, we would prefer to use them for growing the business organically or through acquisitions, as I mentioned in response to an earlier question.

Amit Agicha: And sir, are there any plans to reduce the debt further given the strong cash position?

Srinivas Palakodeti: Yeah, so, you know, where possible, we will reduce cash, as we have demonstrated during the quarter and the year, as long as we don't run into prepayment penalties, etc.

Amit Agicha: Thank you for the replies and all the best for the future.

Srinivas Palakodeti: Thank you.

Moderator: Thank you. Next question is from Ranga Prasad, who is an Individual Investor. Please go ahead.

Ranga Prasad: Good afternoon, everyone. At the outset, let me say that I'm very pleased to hear that the HGS management is optimistic about better performance in the coming quarters, especially in improving operating margins. I'm also happy to note the improvement in the profitability of the media division. Hopefully, this positive trend will continue in the quarters ahead and contribute to the company's profitability.

My question relates to the high level of deferred taxes. Can we expect this trend to continue, or is it a one-time occurrence? In the coming quarters, will we continue to see high levels of deferred taxes?

The second question is regarding the finance cost of ₹174 crore, even though we have a cash and treasury balance of ₹5,000 crore. Can we expect a reduction in interest costs in the upcoming quarters? This would further enhance the company's profitability.

Srinivas Palakodeti: Thank you, Mr. Prasad.. If you look at the interest components, broadly speaking, there are 2-3 main components. One is the actual interest paid on borrowings, and as I mentioned, we are seeing a reduction in debt borrowings over the course of this year. The second component arises from accounting under IFRS 16 or IndAS 116. Whenever you lease property or assets, accounting standards require you to recognize additional interest and depreciation. This may increase if, for example, you take on a new office lease, lease a transponder, or lease set-top boxes. That said, we are making efforts to reduce debt and interest costs, and we have demonstrated a reduction in borrowings. I hope that helps.

Secondly, on deferred tax, I think Q3 was extraordinarily high. Moving forward, we expect these amounts to be lower.

Ranga Prasad: Thank you. Now, I want to make an observation on the media division. I'm really very enthused about the performance. The segment-wise performance shows that it has likely shown a profit of Rs. 10 crore before unallocated interest, which is very good compared to a loss of Rs. 43 crore last quarter. So, I'm hoping this indicates a turnaround and not just a one-time, one-off quarter. Mr. Vynsley, can you explain that?

Vynsley Fernandes: Good evening to you, sir. It's nice to connect with you again. Thank you so much for your support. You're right - we've been working very hard, as we assured you, and you can see the results in the year-on-year revenue growth. I'll ask my colleague Amar to explain further, but it's a combination of several cost rationalization efforts, including bandwidth negotiations, transponder negotiations, and broadcaster cost optimizations. So, Amar, if I may request you to provide a high-level explanation for Shri Ranga Prasad?

Amar Chintopanth: Good evening, Mr. Ranga Prasad. Nice to touch base with you.

Coming to the profitability swing from a negative of Rs. 42 crore to a positive of Rs. 10 crore, there are a couple of key components in that. One, of course, is the increase in other income. As you may have seen, our other income has increased by about Rs. 20 crore because we continuously evaluate how we can monetize some of our passive assets - those we have invested in previously but may not be actively utilizing - since the business needs cash. So that's roughly an increase of about Rs. 20 crore.

Is that a one-time event? It could potentially recur because we have not monetized all our assets. We continuously assess which idle assets can be monetized. That's point number one.

The remaining increase is driven by cost rationalization. There are three critical components of our costs:

1. Broadcaster costs, which are our primary expense.
2. Transponder (satellite transponder) costs.
3. Bandwidth costs in the broadband business.

As for bandwidth costs, as Vyns has explained in the past, we have been renegotiating with all our bandwidth providers, achieving significant savings as the broadband business moves toward profitability.

Regarding broadcaster costs, we have also renegotiated with broadcasters - just as other MSOs have - to adopt a variable cost model. This means that if the business grows, costs increase accordingly, but otherwise, they remain steady.

Lastly, for transponder costs, we regularly engage with satellite service providers. In cases of interference - such as solar interference or other disruptions - we approach them for certain discounts due to the resulting revenue loss.

A combination of these three cost optimizations, along with the increase in other income, has resulted in this profitability shift. Importantly, we believe that this is a sustainable change.

Ranga Prasad: Thank you very much. I'd like to congratulate the entire HGS team for putting a very informative presentation. Thank you very much.

Vynsley Fernandes: Thank you, sir.

Srinivas Palakodeti: Thank you.

Darshan Mankad: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to Mr. Partha DeSarkar for closing comments.

Partha DeSarkar: Thank you. Once again, very happy to be with you and looking forward to another engaging conversation at the end of Quarter 4. As you realize, we are in the middle of transforming the business from a very traditional, pure-play BPO into a technology powerhouse. This takes time. I would ask you all to be patient as we go through this journey, and I'm sure you will see more value being added to our business as we improve our profitability. With that, I will finish for today.

Moderator: Thank you. On behalf of Hinduja Global Solutions Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect the 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.
