November 25, 2024

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 November 19, 2024

This is in continuation to Q2 and H1 FY2025 Earnings Conference Call of Hinduja Global Solutions Limited held on November 19, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirement), Regulations 2015, we wish to attach herewith the transcript of Q2 and H1 FY2025 Earnings Conference Call of the Company which was group meet held on November 19, 2024.

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: 2024.11.25 17:06:44 +05'30'

Narendra Singh
Company Secretary
F4853

Encl: As above

Hinduja Global Solutions Limited
Q2 and H1 FY2025 Earnings Conference Call
November 19, 2024

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, Head of Finance, HGS Media

Moderator: Good evening, ladies and gentlemen, a very warm welcome to the Q2 and H1 FY2025 Earnings Call of Hinduja Global Solutions Limited. From the senior management we have with us today, 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 and Mr. Amar Chintopanth from HGS Media. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal to the operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Darshan Mankad from Adfactors PR. Thank you and over to you, sir.

Darshan Mankad: Thank you, Darwin. Good evening, everyone. Welcome to the Earnings call of Hinduja Global Solutions Limited for the second quarter and half-year ended September 30, 2024.

Before we begin, I would like to highlight that some of the statements made during today's call may be forward-looking in nature. These statements involve risks and uncertainties, including those related to the company's future financial and operational performance.

Additionally, in the unlikely event of a call drop during the conference, we will ensure the call is reconnected at the earliest.

I now invite Partha Sir to deliver the opening remarks. Over to you, Sir.

Partha DeSarkar: Thank you, and good evening to all of you. It's a pleasure to connect with you again for our Q2 Earnings conference call. A presentation is available on our website, which we will refer to during the discussion.

Before we begin, let me share the usual safety statement. Please note that some of the statements made during this call may be forward-looking and could involve risks and uncertainties.

Moving on, let's start with our introductory slide, Slide 4, which provides an overview of the company.

We are a global leader in optimizing customer experience, digital transformation, business process management, and the digital media ecosystem. While the slide includes numerous statistics that many of you may already be familiar with, I'll summarize by highlighting that we manage three very strong business verticals, each driving our growth and success.

Let's move to Slide 5, which highlights our financial performance.

For Q2 FY2025:

- Total Income: ₹1,207.6 crores (US$ 144.4 million).
- Operating Revenue: ₹1,087.2 crores (US$ 130 million).
- EBITDA: ₹154.8 crores (US$ 18.5 million).
- EBITDA Margin: 12.8%.

For the Year-to-Date (H1 FY2025):

- Total Income: ₹2,426.2 crores (US$ 290.2 million).
- Operating Revenue: ₹2,179.1 crores (US$ 260.7 million).
- EBITDA: ₹298.3 crores (US$ 35.7 million).
- EBITDA Margin: 12.3%.

Let's move to Slide 6, where I'll highlight some key updates.

We continue to face challenges in revenue growth and profitability, primarily due to muted growth. This is driven by several factors:

- Macroeconomic pressures.
- Uncertainties surrounding recent elections.
- Delays in decision-making for awarding contracts.
- A decline in revenues from our UK business.

That said, with two major elections are now concluded and new governments firmly in place, we are optimistic that decision-making will accelerate in the second half of the year.

On a positive note, our engagement with existing clients remains strong, and our pipeline is healthy. We recently signed two significant contracts in North America for core technology services. This is an important milestone, as it reflects the success of our ongoing journey to increase the digital component of our revenues. I am pleased to report that these two wins are predominantly technology-driven, underscoring the growing contribution of technology services to our overall portfolio.

Similarly, our Agent X platform, an AI-driven solution for customer experience transformation, recently achieved a major milestone by winning approval for the UK G-Cloud framework submission. This win allows the entire UK public sector to access and use Agent X through G-Cloud services. It is a significant breakthrough, as it effectively opens up the UK public sector market for our technology services. This opportunity includes 24 large public sector entities and 317 provincial government agencies. This win, which occurred in early October-November, positions us to bid for projects across the UK public sector. While we are yet to generate revenue from this opportunity, its strategic importance cannot be overstated.

Our Australian business, continues to show strong growth, fueled by an increasing trend of offshoring work to India by our Australian clients. Additionally, newer geographies such as Colombia and South Africa are performing well, with South Africa showing a promising trial pipeline.

In cybersecurity, we've launched seven new AI-led solution offerings, marking our entry into this space. Unlike traditional solutions, our offerings are powered by AI.

Returning to the UK public sector, Agent X remains a key differentiator in winning new clients. It has already been deployed with 16 clients across Canada, the US, and Jamaica.

As we transition further into technology-driven services, we are prioritizing skills development for our employees. A significant focus is being placed on digital upskilling, ensuring our teams across Colombia, South Africa, the Philippines, and India are equipped for this shift.

Let's move to the next slide, which provides an overview of our Cape Town operation. In the image on the top right, you can see our campus located in Woodstock, Cape Town, a site with historical significance. Notably, it is home to the Treaty Tree, famously associated with Dr. Nelson Mandela.

From a business perspective, South Africa offers a compelling value proposition, delivering cost savings of approximately 40% to 60% per FTE.

Currently, we have 136 operational seats, with the capacity to scale rapidly. The facility spans four floors, allowing us to quickly expand seating as demand increases.

In terms of language capabilities, our Cape Town operation supports four languages:

- English
- German
- French
- Dutch

Let’s move to Slide 8, which highlights the launch of our AI Hub in the Philippines. This state-of-the-art facility serves as a hub for innovation, where we experiment and refine our AI-driven service offerings. It is an interactive space designed for clients, partners, and employees to experience cutting-edge technologies in automation, analytics, and AI.

The hub features advanced tools such as virtual reality visual AI and speech AI, showcasing the transformative potential of our solutions. It’s a proud moment for us, as this hub underscores our commitment to leveraging advanced technology to deliver value for our clients.

Moving to Slide 9, a key recognition worth noting is the ISG Provider Lens rating, where our Agent X platform has been positioned in the Leader Quadrant for Intelligent Agent Experience and Intelligent CX (AI and Analytics). Our placement in the top-right quadrant reflects our strong capabilities and leadership in these domains, marking a significant achievement for the company.

Our strategy focus continues to remain the same. We are a vertical-specific business, and we are driving point solutions towards the end. LeanOps with intelligent automation, cost-effective cloud and experts on demand. Leaning into the potential of Applied AI, most of our AI solutions are catered to client-specific business environments. Our AI Ignite is powered by a partner ecosystem, and Agent X is now being customized for the verticals we are servicing, along with the dedicated AI Lab.

I talked about talent management. As we steer the company toward more digital frontiers, we are undergoing a massive re-skilling exercise for employees across Colombia, South Africa, the Philippines, and India to train them on AI and technology skills.

My last slide captures the concept of bringing digital and traditional business together at the intersection of these two cycles, which we are calling digital operations. These include:

- AI-driven process management
- Process improvement
- Unattended customer service using conversational bots or interactive voice agents
- Attended customer service, where the human is in the loop and continuously monitoring transactions, assisted by transactional IVAs powered by AI
- AI Ops, including data tagging and labeling

This intersection lies at the core of our CX business and digital business. On the two extremes, we have the conventional digital business (app development/maintenance, cloud, system implementation, etc.) and the traditional CX business (contact centers with heavy workforce deployment, manpower-driven back office, and technology seen as a job tool).

So that is the end of my section of the presentation. I will hand it over to my colleague, Vyns, to take you through the Digital Media Business update. Vyns, over to you.

Vynsley Fernandes: Thank you, Partha. Good evening, everyone, and again, welcome to the call on the Q2 Earnings for FY2025 and H1 as well.

I'll go straight to Slide 13. Normally, I don't delve too much into industry and environmental factors, but this time I thought it is important. I'm sure many of you have been reading in the press and watching on television about the huge, exciting opportunity around the corner — broadband over satellite, or essentially receiving internet from space via satellite. Full credit to the Government of India for pushing this initiative actively and effectively.

What it will do is provide connectivity to underserved and rural markets across the country.

So, what is broadband over satellite? To put it simply, imagine a small dish on your rooftop, balcony, or even on top of your car, with satellites overhead providing broadband. Effectively, you're not connected through any wires or cables; instead, there's a small satellite dish connecting to your device at home, enabling you to receive broadband or internet connectivity. This is a great model for the future.

The reason I chose to focus on this is because, if you'll recall, a couple of quarters ago, even over a year ago, ONEOTT iNTERTAINMENT Limited, our broadband vertical, has been working on this. We have conducted, as I shared in our investor calls as well, tests in places like Tawang in Arunachal Pradesh and Pulwama in Jammu and Kashmir, where we tested this technology to see how it could bring education to remote parts of the country and provide infotainment.

If you look at the slide, and this is all thanks to news available in the marketplace, the best part is that suddenly access to education, healthcare, government public services, and e-commerce becomes available everywhere across the country.

Your company, ONEOTT iNTERTAINMENT Limited, and the fact that we are connected to about 65% of rural India through **NXT**DIGITAL, makes us very excited about the opportunities this provides. This is a sea change, and for us, it is probably the next big thing as we look to partner with or become a service provider to the large global players in this space. Stay posted for more news on this subject.

Going to Slide 14, I shared in the last quarter that there were a couple of initiatives we had rolled out. I thought it was important to update all of you on the progress of those initiatives.

If you look at ONE Business, it was essentially a product we rolled out through a proof of concept (POC) in parts of Mumbai in August. The idea was, we are sitting on so much connectivity, how can we leverage it to offer our existing network and provide commercial broadband, mainly to the MSME and SOHO segments? SOHO stands for small office, home office, which includes lawyers, doctors, chartered accountants, designers, and people working from home.

We ran this proof of concept and were able to successfully carry it out. We signed on some very notable clients in the last quarter itself, from Kalyan Jewelers to Prestige Group. The POC has been successfully completed, and we’re looking to roll it out across key markets. Essentially, we are providing quality broadband and connectivity to markets across MTN (Mumbai – Thane – Navi Mumbai). As things progress, we plan to expand this offering across the rest of India.

I also shared with you that there would be two offerings: one would be the simple Business Connect offering, and the other would be Business Connect Pro, which is an Internet Lease Line (ILL). This is a dedicated connection for customers, with much higher SLAs and a dedicated customer care team. So, that is the update on ONE Business.

ONE7 Star: I shared with you earlier this year the relationship we forged, and the strategy was effectively to work with a strong partner and grow the business in certain key markets. As you know, we took a majority acquisition of the leading Mumbai-based ISP, 7 Star Broadband. This has been an exceptional time for us. We have rebranded the business as ONE7 Star. So, if you see the graphic on your screen in Slide 14, 7Star Digital is now ONE7 Star. It has been doing very well, and I thought it pertinent to keep you all posted.

In fact, if you go to Slide 15, you'll see the branding and communications we've rolled out in Quarter 2, mainly to rebrand it not just for existing customers, but also as a pitch to new customers. We've launched graphics in various formats, such as billboards, bus stops, T-shirts for the teams, a new portal, and a new website. We hope that anyone who was a customer of 7Star in the past is now enjoying the ONE7 Star experience. We believe that this is another very strong initiative we’ve embarked on, and we plan to see it grow significantly as we move forward.

In terms of where we are, Slide 16 is by far a very critical one, and I wanted to share it with you because I distinctly recall a question at the end of the Q4 analyst call, where when we presented growth, we did over 28% last year, as you recall, in terms of subscriber base. I had categorically mentioned that our focus this year would be on improving profitability and moving to a strong, profitable base. If you look at the graphic on the left, we are focused on churning low-yield customers—customers where we really weren't able to make any money, these were low-revenue customers. Instead of that, we focused on improving the quality of service and therefore driving the broadband ARPUs (average revenue per user). So, while we are seeing a trend across the industry where ARPUs are either going down or remaining flat, we are quite happy that we have been able to grow from Rs. 174 ARPU last year in Q2 to Rs. 189.

I think the more important point, which I had mentioned at the end of FY2024 analysis, is that our focus would be on ensuring our revenue mix, or product mix, would be sufficiently diversified so as to not just reduce the dependency on the retail segment (which, as you know, would face ARPU challenges going forward), but more importantly, to cater to a diversified set of customers who have greater longevity and higher ARPUs as well. If you look at the pie chart, we've been able to achieve that in H1 of this year, where today 10% of our topline for H1 comes from our enterprise segment. This is very good, and we look to expand that as we grow the pie. The new managed service model, which I had mentioned in the last quarter presentation, is focused on alliances with triple players. It already accounts for around 5% of the topline, not just from triple players but other partners as well. We believe this is the future going forward. Strong collaboration, leveraging our expertise in technology and networks, having the best people on board, and supporting smaller ISPs in their growth story—managing their businesses for them—creates a win-win situation for the managed service partner, as well as for our company.

This is also a factor in digital television. We've continued to improve our yield with a slew of measures. If you look at the graph on the right-hand side, we're promoting our mixed product or integrated product, which is digital television, broadband, and OTT. So, overall, our focus is on quality revenue customers across DTV and broadband. We know that there are challenges in the market and the industry, but what has always set Hinduja Global Solutions apart from the rest is our ability to innovate and leverage technology for the future. I think we have done that pretty well. It's undoubtedly an uphill task, but we'll keep on plugging away at that. With that, I think I'm done with the end of my presentation. That was Slide 16.

And I'm now going to hand over to Srinivas Palakodeti (Pala), who is our Global CFO. Thank you all for listening patiently, much appreciated. Pala, over to you.

Srinivas Palakodeti: Thank you, Vyns. Good afternoon, everyone. Thank you for joining us on this Q2 Earnings call. I'm on slide 18. This is the revenue performance for the quarter ended September 2024. On a year-on-year basis, there is a drop in revenues of roughly about 8%. The drop in revenue on the BPM side is about 13%, while on the media side, the revenues are up by about 10%, which is leading to the overall drop of 8%. This drop in revenues is primarily due to the reduction in revenues from our UK business, again primarily from the UK public sector. For the quarter ended Q1 and Q2 of the current year, the BPM business accounted for around 71% to 72%, and the media business is about 28%. Compared to the same period last year, about 78% came from the BPM business, and over 22% came from the media business.

On the margin side, our EBITDA margins have shown an improvement on a sequential basis, up from 11.8% to 12.8%, but lower than where we were a year ago, when the margins were about 15.9%. One thing to call out is that between Q1 and Q2 of the current year, there is a decline in Other Income. While this is primarily due to exchange rate fluctuations, in Q1 we had an FX gain of about Rs. 8.3 crores, and in Q2, that became a loss of Rs. 8.9 crores. So, on the other income side alone, there is a swing of about Rs. 17.2 crores, primarily due to the FX variation. This is happening because, as a global company, revenues and costs are accounted for in multiple currencies. As you know, FX movements have been pretty volatile, not just between USD and INR, but also between USD and GBP, as well as USD and JMD. Practically all our currencies have shown volatility.

Moving on to the next slide, on a half-yearly basis, our revenues are down by about 5.8%, and our EBITDA margin is down from over 15.6% to 12.3%. PAT for the first half of the year, including profits from discontinued operations, came in at about Rs. 111 crores, substantially higher than the Rs. 35.1 crores for the first half of the previous financial year.

Moving on to slide 20, this is on the balance sheet. Our balance sheet continues to remain strong. Our net worth as of September is over Rs. 7,828 crores. There is an increase in the DSO days from 62 days in March 2024 to 65 days in September 2024. Clearly, there is seasonality. You can see that last year, from September 2023 to Q2 FY2024, it was 67 days, and it has come down to 62 days. So, we have no concerns about our receivables. All our clients are well-established and strong.

The other thing to call out is on the debt side. Between March 2024, when we had total debt of Rs. 1,306 crores, that debt has reduced by Rs. 49 crores to about Rs. 1,257 crores as of 30th September. So, we have been able to reduce our total debt during the first half of the current financial year.

Moving on to slide 22, as I said, this is on the cash flow side. The key thing to call out is that during the first half of the year, our CAPEX stands at close to Rs. 66 crores, which is roughly about Rs. 5 crores lower than the same period last year. So, we are being prudent about our CAPEX, and also this spend is being determined by the mix of the business we are doing. The only other thing to call out is that we had some payments to be made for the TekLink acquisition, which continues to perform well. So, there were some earn-out payments, and during the year, we paid out roughly about Rs. 129.5 crores towards the TekLink acquisition.

Moving on to slide 22, as I said, our balance sheet is strong. We have shareholder funds of about Rs. 7828 crores. Our total net cash and treasury surplus, which is total cash and treasury surplus net of debt, stands at Rs. 5,090 crores. If you see between March and September, there is an increase of about Rs. 77 crores in the net treasury and cash surplus, driven by a reduction in debt, as well as an increase in the overall gross treasury and cash surplus. So, we have a strong position on the balance sheet side.

Moving to slide 23, this is on the revenue split. Our CX services account for about 57%, and our digital and media business accounts for 43% of the revenues. Within this 43%, about 21% of the total revenues come from digital services, as Partha referred to in his slide on digital business, as well as from the digital operations business. The CX services share has remained fairly constant in the range of 57% between Q1 of this year and Q2 of this year, though the digital revenues have shown a slight increase in total revenue.

Moving on to slide 24, this is the revenue by origination and delivery. You will see that the UK business, from an origination perspective, is around 12%. This has shown a decline from what it was in earlier periods, for reasons mentioned in our Earnings calls. We had a lot of revenue coming in related to COVID, and with COVID behind us, some of those revenues have tapered off and dropped. So, the share of UK revenues has come down. The India revenues of 36% comprise the media business, the HRO business, and we do have some clients on the digital side from India, primarily subsidiaries of clients for whom we do work overseas. From a delivery point of view, India accounts for about 40%, the US for about 23%, and Canada and the UK for 13% and 10%, respectively. The Philippines accounts for 12%. We expect, as we grow, that share of South Africa, will grow going forward, considering that operations have started in the current quarter and as Partha mentioned the pipeline looks strong.

Moving to the next slide, this is revenue by vertical. The share of tech, media, and telecom sector has not changed and has remained in the range of 55% between Q1 and Q2 of this year. As far as the public sector is concerned, it has shown a dip. It was in the range of about 12% earlier but has come down to about 8%. As I mentioned, this is primarily from the UK sector, where revenues have dropped in several public sector areas, particularly in healthcare, related to COVID. BFSI has shown an increase and stands at 16%. Consumer and retail have also shown an increase at 13%, with some increase in the "others" category. So, that is the broad breakup of our total revenue split for the quarter.

Slide 26 is on client concentration. The top customer accounts for about 10.6% from the BPM business. The top 5 customers account for about 24%, and the top 10 customers account for about 32%. These all come from the BPM business. Many of our media business clients are from the retail side, but we do expect that to change, as Vyns mentioned, since we are going to focus more on the corporate and small office businesses, as well as semi-corporates for the broadband business.

On the DSO side, there is, as I said, an increase between March 2024 and September 2024, as well as from June 2024 to June 2025. But as I mentioned in the earlier slide, this stood at about 67 days in September 2023, came down to 62 days in March 2024, and has increased to 65 days as of September 2024. So, roughly a two-day increase in DSO between September 2024 and 2025. More importantly, as I mentioned, we have a strong client base that is financially strong, so we have no discomfort or concerns on the receivables side.

This is my last slide, so I would now like to open the Q&A session and hand it back to Darshan for moderating. Thank you, everyone, for listening to me.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Dheeraj Kumar, an individual investor. Please go ahead.

Dheeraj Kumar: I would like to know the current revenue contribution from the cybersecurity services and One Business One Star and what is the contribution that we are looking forward in maybe the coming 2 or 3 years?

Srinivas Palakodeti: Thank you for your question. Cybersecurity is something which we have started only in the current financial year. So, revenues at this stage in the current quarter are not significant. But this is an area which looks promising, and we expect that to grow going forward. It may take a year or two to build up some scale, but this is an area of large growth potential going forward.

Dheeraj Kumar: Just to understand the precise number, is it Rs. 1 crore, Rs. 10 crore, do you have any precise number for cybersecurity, even if it is not significant?

Srinivas Palakodeti: I don't have it offline, to be honest. I need to check in. I will have to come back.

Dheeraj Kumar: One Business One Star?

Vynsley Fernandes: One7 Star is actually more of a joint venture where they had an existing business. The idea of strategically partnering with them is not so much financial, but rather strategic, in being able to expand into markets. So rather than looking at it from a revenue perspective, we are looking at it from a reduced cost of acquisition. For example, if my cost of acquisition is X in parts of Western Mumbai, it reduces significantly by about 20%-25%. That is how One7 Star works.

Regarding One Business, your question is absolutely valid. It is a new product that has been rolled out. The ARPUs for such a business, I can share with you, are closer to about Rs. 10,000 per link. As for the quantum of value, we have only completed a POC, which has given us about 17 to 24 links. We are just rolling it out across Mumbai in the first phase, and then Mumbai, Thane, Navi Mumbai, before taking it to other cities. So, I think by the end of Q4, we will see traction from Mumbai, Thane, Navi Mumbai, and then onwards to the other markets.

Dheeraj Kumar: And what is the contribution that we are looking forward, maybe in the coming 3 years?

Vynsley Fernandes: I will tell you; we just did a POC in August. It was a 3-month POC, covering August, September, and October. So, we are still in the process of forming a business plan. But as I mentioned to you, and if you look at the pie chart, our idea was more to ensure that our dependence on the retail sector reduces. The exact quantum is a bit difficult to mention right now, but I can promise you this: we will definitely be in a position to give you a much better sense once it is commercially rolled out towards the end of Q3. By Q4, we will be able to give you actual numbers.

Dheeraj Kumar: The reason I am asking this question is that, for the past 12 quarters, the company's Earnings have remained stagnant, almost at the same level, which is reflected in the share price. Our share price is at a 3-year low, and we would like to know if the company is working on anything new that could increase revenue in the future and, in turn, lift the share price for all investors?

Vynsley Fernandes: Absolutely, sir.

Dheeraj Kumar: And my last question regarding the financials: I see that we have borrowings of around Rs. 100 crores, but I don't understand why we have this debt when we have so much cash flow on our balance sheet. The interest we are paying is reflected on the profit and loss statement, and there are many who simply read the profit and loss statement to make investment decisions. So, what is the reason behind this?

Srinivas Palakodeti: Let me take that. Good question. The numbers we are presenting are at a consolidated level, whether it's debt or debt-related taxes, but a lot of the cash comes from the sale of the healthcare business. That money is outside India and is earning reasonable returns from a dollar perspective. The bulk of money has been used for buybacks, transaction costs, and other growth initiatives. However, if you bring the money back to India, it will attract a large tax in the form of dividend tax. That is one of the reasons preventing us from bringing all the money back to India. There would be significant tax inefficiencies involved.

Dheeraj Kumar: I think that is a good way to look at it. What are the plans for using that money? It has been a long time since the sale of the business. Are we planning any acquisitions or expansions, or will it just stay invested, with us only gaining interest on it?

Srinivas Palakodeti: If you go back to what we have done, soon after the sale of the healthcare business, we acquired a business called Diversify, and then we acquired a business called TekLink in the USA. That acquisition took place at the end of February 2023. Currently, we continue to look for opportunities for growth. It could be through operations, like we started in Colombia and South Africa, or it could be through acquisitions. So, we continue to look for acquisitions that align with what we want to do and, more importantly, at valuations that make sense.

Dheeraj Kumar: Are these two acquisitions in the same domain of providing IT or IT management services, or do they belong to a different business?

Srinivas Palakodeti: The business TekLink, which we acquired, has primarily been into analytics, which is part of our overall plan to grow the digital operations and digital services. The other acquisition we made, called Diversify, is an Australian company. It is into traditional offshoring and also a niche business called Micro staffing. More importantly, the primary rationale for this acquisition was to gain access to the Australian market, as we were not present in Australia until that time. What we are seeing now, over time, is a lot of traction for digital services and many opportunities arising for catering to the Australian public sector, as well as for traditional BPM offshoring business to India or the Philippines. These things clearly take time, but we are quite happy with how both acquisitions have shaped up so far.

Moderator: Thank you. We have the next question from the line of Ranga Prasad, an Individual Investor. Please go ahead.

Ranga Prasad: At the outset, let me say that I am deeply concerned about the continuing losses in our media division, both on a quarter-to-quarter basis and on a year-on-year basis. I am wondering if we have a roadmap for when we can expect this division to turn profitable, or at least when the losses can be contained. It has been reported in the media that Elon Musk's Starlink will also be coming to India to offer satellite broadband. Would this significantly increase the competition for our broadband business?

Vynsley Fernandes: So first, let me start with your second question. As far as what you mentioned about Starlink coming to India, there is also Amazon Kuiper, which is looking at India. There is OneWeb through Airtel, and there is obviously GOSCS. There will be others like Viasat and a couple of other players. I think what these companies need is a strong partner in the country to support them. I am not talking about regulatory support; I am talking about, aside from regulatory requirements, there are four key factors that any player needs:

First, a strong knowledge of satellite technology— and as you know, we are the only HITS player in Asia and thus have experience in satellite. The second requirement is the ability to understand broadband, including the various broadband packages. We have an ISP speed; India's fourth largest private ISP. The third requirement is significant penetration in rural India, as satellite broadband targets underserved or unconnected markets. As you know, we are present in over 4,500 pin codes, and 65% of our subscriber base comes from semi-urban, semi-rural, and rural areas, including places like the far north-eastern reaches of India, the Andaman and Nicobar Islands, and Kargil. We are very proud of our connectivity in these regions, such as Tawang and Arunachal Pradesh, and Pulwama. The fourth most important requirement is a comprehensive ecosystem of sales, installation, service, and support. Today, we have 10,000 franchisees across the country, which represents about 40,000 feet on the ground. We have our own 1,300-strong task workforce. With all these factors, we believe we are in the most suitable position to align with one of these major players, given certain preconditions. I hope that answers your second question, sir.

On your first question, as you know, this is a significantly challenging industry, and we continue to innovate virtually every year to push things forward. The entire industry is facing challenges, especially the digital distribution sector. We are the only independent platform left in the country, and the largest independent multi-system operator. We believe that the combination we have built—leveraging our digital television business to grow our broadband—will yield positive results. I can assure you of that.

We are facing challenges quarter-on-quarter, but if you look at how we have changed the product mix since coming out of the lockdown and how consumer preferences have shifted, we have not lost momentum or growth. We have stayed focused on growth. If you look at the topline, in the H1 of FY2024, we achieved around Rs. 500 crores, and this year, we reached Rs. 608 crores in H1 alone. That is a 22% growth. But your point is valid, sir. The focus is now strictly on profitability, and this is being harmonized through integrating broadband and digital television in a much bigger way than we did earlier. Given that we have now adapted to the challenges posed by OTT, changing customer preferences, and free digital television services, we believe we are on the right track, sir.

Ranga Prasad: This lack of profitability has been heavily impacting the share price. Today, the share price is around 630 or 640, compared to the book value of 1680. That is a discount of over 60%. So clearly, the market is becoming very concerned about this lack of profitability. I am just pointing that out.

Vynsley Fernandes: No, sir, you are right.

Ranga Prasad: Now, I have some questions on the financials, more in the form of clarifications. One is that the balance sheet shows a goodwill amount of Rs. 997 crores. Could you please tell me what this relates to, as it has been increasing? This quarter, it increased from Rs. 959 crores to Rs. 997 crores. Is there a plan to amortize this goodwill over a period of time? If so, over how many years?

Srinivas Palakodeti: Let me answer that. If you look at the period between March 2024 and September 2024, the increase is primarily due to two drivers. One is the 7Star acquisition, which Vyns talked about, that happened in April. This resulted in some goodwill being created. The rest of the increase is primarily due to FX variation. I just want to provide a slightly different perspective. These are all goodwill amounts created primarily from the acquisitions we have made — goodwill from consolidation. It could be TekLink, it could be Diversify, or it could be earlier acquisitions as well. From an accounting standpoint, these are tested for impairment; otherwise, they remain constant on the balance sheet.

Ranga Prasad: I would like to get some clarification on your deferred tax assets. You are showing deferred tax assets of Rs. 240 crores and additional income tax assets of Rs. 500 crores. What is the distinction between the two?

Srinivas Palakodeti: Some relate to taxes which we have been paid either by deduction at source/additionally paid and for which we are essentially waiting for tax refunds or pending clearances, primarily overseas. Deferred tax primarily arises from losses incurred in the past, for which there is reasonable certainty of being utilized against our future taxable profits, and hence we have created a deferred tax asset. Also, this may be due to temporary timing differences between tax periods. For instance, there are some payments due, where you can claim an expense as tax deductible only when they are paid, rather than on an accrual basis.

Ranga Prasad: The next clarification is regarding comprehensive income. It shows Rs. 93.75 crores for this quarter. Could you please shed some light on that? And how will it affect our future net profit? Will it have any impact on the profits reported in subsequent quarters?

Srinivas Palakodeti: Operationally, no, this is purely from an accounting treatment. This also includes a mark to market of and other re-measurements not impacting the profits. For instance, if I take forward covers or any hedges and such hedges being effective at each reporting date, any mark-to-market on those hedges would initially be go into other comprehensive income. They would only impact the P&L only upon when such hedges become ineffective upon maturity of the forwards covers taken.

Ranga Prasad: My final question is regarding the interest expense. I see that it is going up, even though our revenue from operations has been coming down. Is there any particular reason for this increase? Is it due to the rise in interest rates, or is it because the quantum of debt we have taken has increased?

Srinivas Palakodeti: So, multiple things. First, as I mentioned, between March and September this year, there was actually a reduction in debt. However, this interest expense has two broad drivers. One is any loans you have taken on which you have to pay interest. The second part comes from leases taken. For example, if I take a premise on lease, I must treat it as though I have borrowed money to own that particular building. I then have to account for interest and depreciation on that building as against accounting for lease payments as rent expenses, even though I don't own it. So, more than the cash interest part, it is the Ind AS 116 on accounting for long term leases that is driving the increase in interest, especially when you look at the difference between Q2 of FY2024 and Q2 of FY2025, where it increased from about Rs. 46 crores to Rs. 62 crores.

Ranga Prasad: And finally, there has been a lot of negative publicity regarding the ongoing search and survey assessment. In fact, some media reports have claimed that the burden on the company could be as much as Rs. 2,500 crores. The company has not provided any clarification on this, so is there any update on the ongoing search and survey assessment?

Srinivas Palakodeti: We have been making disclosures as required since the quarter ending December 2023. There was a search and survey conducted in November-December last year. We have updated this disclosure on our publication page. A show cause notice has been received, and we are in the process of replying to it. That is the current status.

Moderator: Thank you. We have the next question from the line of Anuj Panwar from Family Office. Please go ahead.

Anuj Panwar: I just have two questions. First, how do you see the growth in revenue and profitability in the BPO business going forward? And secondly, when are we planning to launch our broadband over satellite offering? Does it require further R&D? I just wanted to understand the status on that.

Srinivas Palakodeti: As we mentioned, we have faced challenges primarily in the UK public sector. Therefore, we are shifting our focus towards the private sector and increasing our offshoring efforts. The South Africa Centre was established to drive higher-margin, profitable businesses. Additionally, as Partha mentioned, we are focusing on technology services. We have secured two contracts with clients in North America, offering services that extend beyond traditional call center and BPO operations. We anticipate these services will scale up during the remainder of the financial year, with their full impact expected in FY2026, starting April 1, 2025. We believe that incorporating offshoring into these contracts will enhance our margins in the long run.

Vynsley Fernandes: Anuj, I wanted to update you on our satellite broadband solutions. About a year ago, we began providing broadband over geostationary satellites (GEO) using the government's INSAT series, and this service is already operational. We've connected a couple of solar farms in Tawang and Arunachal Pradesh as part of our testing to assess the quality for educational and communication purposes.

Currently, our service is limited due to the nature of geostationary satellites. However, major players like Amazon Kuiper, OneWeb (in partnership with Airtel), and Starlink are focusing on Low Earth Orbit (LEO) satellites, which I believe will be available next year. The Telecom Regulatory Authority of India (TRAI) has stated they will release a pricing structure by December 15th this year, just a few weeks away. We anticipate that LEO tests will start in the middle of next year.

We're ready to integrate our services whenever the opportunity arises. I hope this answers your question!

Moderator: Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to Mr. Partha DeSarkar for closing comments. Over to you, sir.

Partha DeSarkar: Ladies and gentlemen, thank you very much for listening to us in our Q2 Earnings Conference Call. And we look forward to talking to you again in February when we bring up our Q3 numbers. All the best, and good night.

Moderator: Thank you all. On behalf of Hinduja Global Solutions Limited, that concludes this conference. Thank you all for joining us, 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.
