February 21, 2024

BSE Limited
Corporate Relation Dept.
P.J. Towers, Dalal Street
Mumbai - 400001.
Scrip Code: 532859

National Stock Exchange of India Ltd.
"Exchange Plaza"
Bandra Kurla Complex, Bandra (E)
Mumbai - 400051.
Symbol: HGS

Dear Sirs/Madam,

Sub: Transcript of Earnings Conference Call held on February 16, 2024

This is in continuation to Q3 FY2024 Earnings Call of Hinduja Global Solutions Ltd. held on February 16, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirement), Regulations 2015, we wish to attach herewith the transcript of Q3 FY2024 Earnings Conference Call of the Company held on February 16, 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: 2024.02.21 18:38:27 +05'30'

Narendra Singh
Company Secretary
F4853

Encl : As above

Hinduja Global Solutions Limited
Q3 FY2024 Earnings Conference Call Transcript
February 16, 2024

Key Speakers:

Mr Partha DeSarkar, Executive Director and Group CEO, HGS

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

Mr Srinivas Palakodeti, Global CFO, HGS

Mr. Lakshmi Narayanan CS – Chief of Staff NXTDIGITAL and CFO, ONEOTT iNTERTAINMENT Limited

Hinduja Global Solutions Limited
Q3 FY2024 Earnings Conference Call
February 16, 2024

Moderator: Good evening, ladies and gentlemen. A warm welcome to the Q3 & 9M FY2024 Earnings Conference Call of Hinduja Global Solutions Limited.

From the senior management, we have with us today Mr. Partha DeSarkar – Whole-time Director and Group CEO, Mr. Srinivas Palakodeti – Global CFO, Mr. Vynsley Fernandes – Whole-time Director HGS and Head of Digital Media business and Mr. Lakshmi Narayanan CS –Chief of Staff NXTDIGITAL and Chief Finance Officer, ONEOTT iNTERTAINMENT Limited.

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 the call, please signal the 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. Thank you and over to you, sir.

Darshan Mankad: Thank you, Rhea. Good evening, everyone. We welcome you to the Earnings Call of Hinduja Global Solutions Limited for the third quarter and nine months ended December 31, 2023. Before we begin the earnings call, I would like to mention that some of the statements made during today's call might be forward-looking in nature and hence it may involve risk and uncertainties including those related to the future financial and operating performance.

Please bear with us if there is a call drop during the course of the conference call. We would ensure the call is reconnected the soonest. I will now hand over the call to Partha sir for opening remarks. Over to you, sir.

Partha DeSarkar: Very good afternoon, Darshan. Thank you very much for that introduction. Ladies and gentlemen, thank you for taking the time to attend our call today. To start with we had a strong set of numbers in Q3 FY24. You probably have our deck in front of you as we speak that's been uploaded on our website.

Key callout of this quarter is the double-digit growth in top line across business process management services and digital media services. We have also seen a very good improvement in EBITDA and margin expansion on a YoY basis, from 11% to ~16%. Our PBT (before exceptional items) stood at Rs. 16.2 crore, compared to a loss of Rs. 28.4 crore. So that's a good turnaround. You probably see that in the numbers. However, our PAT was down due to some exceptional items and also quite a large number of tax reversals that were done last year.

I'm also glad to say that we have also seen a good pipeline. As you know, we have been investing in sales since the divestment of our healthcare business. And a lot of these investments in sales and cross-selling are across our traditional BPM services, our digital media services, and our technology services. Those are also slightly starting to pick up traction, specifically around our new acquisition made last year, which was TekLink. We are also signing up for a technology partnership to strengthen our CX offerings in the market. In the UK, we signed up with Form1 Partners. They are very well known in the UK market. We are very excited about this partnership and hope that this will help us build a better pipeline in the UK.

I would say that there is a fair amount of economic uncertainty that still continues, driven by higher interest rates. As you know, inflation is probably coming under control. But the banks are still there, and the Fed, in particular, has given an outlook of holding on to the interest rate; they are not increasing it but are not even reducing it. As a result, we still have an overhang of high interest rates in the economies. And we do see that some of that economic uncertainty leads to delayed decision-making and a longer sales cycle.

I have also talked about the fact that a large part of our operations is still work from home. In fact, in the US, UK, and Canada, about 99% of people are working from home. So, we have been able to rationalize our real estate brick-and-mortar footprint quite a bit. We closed our center in El Paso, Texas in the US, and also in Alabang, Philippines because of this ability to move work from home. I'm also glad to say that our deal pipeline is improving across CX technology and HRO clients, and our proprietary platform, Agent X and Analytics, are also seeing good sales amongst our clients.

If I move to the next slide, which is slide #5, some dashboard numbers out here, you would see that our operating revenues have actually improved from last year to the extent of 7.6% compared with last year quarter of about 2%. So, I am happy with those set of numbers. Operating EBITDA has actually shown a big jump, almost 40% compared to last year and 18.1% compared to the quarter before. Other Income, while it has improved beyond last year with 102.0%, while on a QoQ basis, there is a slight dip, about 15%. When you combine all of these things together, you will find that our Total Income has gone up by about 11.2% from last year and about 0.6% compared to last quarter. Total EBITDA has also gone up 61.9%, obviously very enthused by this big jump in profitability.

And if you compare by quarter, we are about 0.7% up. Because of the one-time items that we talked about, while our PBT (before the exceptional items) has improved compared to last year, and a big jump from loss of Rs. 28.4 crore to profit of Rs. 16.2 crore number, you will see compared to last quarter there has been a dip because of the exceptional items. Pala is going to explain that in more detail.

So those are the headline numbers for Q3 FY24. Coming to our 9MFY24 performance. Operating revenues are up 2.4%. Operating EBITDA, however, has jumped close to 40%. Other Income dip of 22.3%, quite a bit of the cash has been deployed as a result of which the Other Income has come down. Total Income, again, has an impact that is down slightly. Total EBITDA is down as well, and PBT (before exceptional items) is down as well. So, the nine months FY24 performance shows the mixed bag as compared to the Q3FY24 performance in the previous slide.

Going up to slide #7, steady performance in the BPM business, where Canada and offshore (India, Philippines) have done really well, US and UK businesses remain muted; it's a mixed bag. We have signed a few new logos in both geographies. As I can see right now, the pipeline is actually improving, quite a bit. So, despite the economic uncertainty that I talked about earlier in the call, the pipeline's health is quite encouraging. The tech solutions business has seen a slight dip in top line, but we have held on; in fact, we have improved EBITDA quite a bit. And we are also trying to move away from selling project revenues; as opposed to that, we are trying to get into managed services with an emphasis on verticalization and industry-specific solutions.

Moving to slide #8, we talked about the acquisition that we made in 2022. So coincidentally, this is the second year. This is two years of having Diversify as a part of the HGS family. Our revenue has grown by an astounding 34% since we acquired it. The business added about 30 new logos, primarily from Australia, and offshore staffing solutions across financing, accounting, IT, etc. We are trying to explore opportunities to cross-sell our traditional BPM services to staffing solutions in the Australian market. We are seeing good interest, but these opportunities are yet to be converted.

When it comes to TekLink, it’s been exactly a year. We closed the deal in February last year. It posted revenue close to US$30 million in 9MFY24, compared to US$24.5 million in 9MFY23. EBITDA% is in the mid-20s again, very smart EBITDA. Strong client win records, despite economic uncertainties in the pipeline, continue to see a good and most important part, which is a synergy between HGS overall and the tech services business, going well.

And also, I would like to mention here that our synergies with our digital media business are starting to show up. We launched a new service line called CelerityX, and the pay-as-you-go service has been developed by the HGS IT team to help the digital media business bring a new product into the marketplace And Vyns will talk more about that.

So, looking ahead, we are going to continue to scale our technology practices. We are extremely excited by generative AI and the potential it has for transforming our business. We are going to leverage that particular tool, and it will almost become the basic foundation stone on which the CX business will evolve for this decade. It reminds me in many ways of the 1990s, when the Internet came in and completely disrupted and brought in new business models. I'm pretty sure that generative AI, large language models, and transform models are all going to have the same impact on the way we do business and creates a massive opportunity for us. Since, it's a new technology, it almost creates a level playing field between the more traditional large-brand IT companies and smaller nimble players by us, because the technology is so new. So, we are building our own AI-led process management solutions, trying to transform the CX operations by applying AI and analytics, and building a team that can sell technology.

If you look at our revenue mix, it has now slowly skewed towards having more digital services as opposed to the earlier people-based services. So, we need a different kind of sales team to sell technology services. And we are ramping up our sales team for digital sales, cross selling our existing services. I also talked about verticalized solutions. We are trying to sell verticalized solutions for banking and financial services, for technology, media, and telecom businesses, and for e-tail and retail businesses.

We will look at M&A and niche offerings that are relevant to advancements and technology. We continue to look at that on an ongoing basis, and that will be the cornerstone of how we grow new capabilities. We have seen what we have done with TekLink; we have seen what we have done with Diversify; and we will continue to scout for more M&A targets to grow our business. With that, I'm going to hand it over to Vyns for him to take you through the digital media business. Over to you, Vyns.

Vynsley Fernandes: Thank you, Partha. Thank you, and good afternoon to everyone. And thank you for joining our Q3 and 9MFY24 update call today. I'm going to start straightaway with slide #11. That you can see on your screen is an extremely proud and truly humbling moment for us as well. We were delighted to launch our new product from our enterprise business, NetX. We launched it and operationalized it on January 22nd at the inauguration of the Shri Ram Mandir in Ayodhya. Truly, there can't be a better occasion or a better time to launch a solution than this. Effectively, we provided connectivity from the cameras that were set up for the inauguration of the temple all the way to global broadcasters overseas. We were showing it live, therefore connecting it and providing live feeds of the inauguration to millions and millions of people across the world. So, there is no better way than to kick off the launch of NetX. Just to give you an idea, and I go back a bit on this call, if you recall, when we launched CelerityX, and we mentioned this in the Q2 call as well, the key objective of CelerityX was to change the enterprise business unit to the enterprise business landscape. And working very closely with the HGS IT and development teams, the kind of synergy that has gone behind developing these solutions has been incredible. And NetX, just to tell you, is effectively a premiere, and it is the first of its aggregating platforms in India. It connects national enterprises with about 18,000 Internet service providers across the entire country.

And we have already signed on key anchor customers across multiple segments, like retail, BFSI, etc., to use this product. Just as an important thing that even Partha mentioned, the entire back-end development is testimony to the kind of synergies that HGS, BPM, and the media business have kind of worked on and developed. The HGS IT team and NXTDIGITAL digital teams have looked at three specific areas, which have been of importance and which we all need to push, namely Artificial Intelligence, Analytics, and Automation. And that is reflected in the development of NetX. Of course, there are other products already in the portfolio, which includes OneX, HomeX, and SkyX, and that's just the start of the products that we are launching in complete synergy with our backend teams.

So, this is a great moment, and if you look at slide #12, it's been reflected very happily in the press. There was major coverage because the entire media started up and took notice of this unique product and solution. And the fact that it could eventually become a game changer for the connectivity or networking landscape in the country. So that's pretty much on slide #12.

On slide #13, if you see everything that we have spoken about over the last three -four quarters are all taking fructification and therefore also reflecting in the numbers that I'll come to in a moment. But we decided that our Prime Minister's entire push for digital inclusion, is something that we've been very keen on reflecting on and working on, and setting up the national long-distance network has been one of those cornerstones of the business. If you look at slide number #13, we have already rolled out about 4,000 kilometres that have already been operationalized between Mumbai, Ahmedabad, Nagpur, Solapur, Kolhapur, Delhi, and the Agra link; there is also Delhi to Dehradun. So completely, we have built out about, we have operationalized, and we are not investing in the fiber, but rather the electronics that ride upon the fiber that we sourced from companies like BSNL, RailTel, etc. So far, 4,000 kilometres have been commissioned, with approximately 2,500 kilometres still in progress. And the best part about it is that, if you just look at these routes, for example, between Mumbai and Nagpur, there are multiple, small towns and cities that are slowly growing. And Solapur, Kolhapur, Mahabaleshwar, Parbhani—are becoming strong growth markets for us, not just for our broadband business but also for our digital television business.

With logical conclusion on slide #14, if I can take you there. These initiatives that we have taken and that I have mentioned in the last quarters on this investor and analyst call are actually now showing up. We have taken initiatives for restructuring the entire model of the business in terms of the products that we offer. We have looked at building out a stronger network that we can depend on. We have looked at various initiatives, like CelerityX and others, that we have built into our product mix. And when you look at slide number #14, you realize that is certainly starting to pay off very handsomely. On a QoQ basis, in terms of digital television, we have grown by about 7%, touching about 4.46 million connected homes today. What is really notable about this growth is that essentially 60% of it has come from markets in the East of India, the Northeast of India, the Seven Sisters, and in Andhra and Telangana. What is significant is that these customers will be signed on for digital television or through our HIT platform.

These are what we term LTCs, which are long-term customers. In our parlance, its long-term customers, what it means is that these customers enter at the lower level of the ARPU market, or the average revenue per user. So, they take a package and say it's probably worth about Rs. 200 or Rs. 180. And then they keep on growing because these are the customers who are experiencing 'pay television' for the first time or just moved from the first level to the second level. So for us, these customers that we have added on are going to provide growth for us or fodder for us to grow over the next few years—not in quarters, but over the next few years. And the strength of that is also reflected in the churn control. If you look at the churn control, over several quarters, we have been able to bring down the churn in this last quarter, in Q3, to about 1.57%, which, I can assure you, is one of the best in the industry today in terms of digital television.

On the other side, our broadband business has an excellent growth story. We have grown by over 32% as compared to Q3 FY23. And on a quarterly basis, we have grown by about 13%, and this is pure subscriber connected. This reflects the slide that I mentioned to you earlier: the operationalization of the long-distance network that we have. So, a lot of this growth has come from those markets—those that earlier probably didn't have great connectivity, didn't have a reliable service provider, or couldn't provide them with a quality service. So, providing a quality service and fulfilling a need gap is something that we have focused on. And clearly, as you look at it, we have been able to grow by about 13% on a QoQ basis. And at the same time, ensuring the churn is also managed. One thing we have shared in several calls is that we are focusing on the quality of our customers and the quality of our revenue rather than just growing it. So, the best part is that these customers that you are seeing are part of a portfolio that will continue to grow.

So effectively to kind of summarize where we are at. And we have taken a lot of initiatives. We took multiple initiatives, and we took the initiative to ensure that we build new innovative models for our digital television business. We looked at strengthening our broadband business and laying a very strong foundation for growth by commissioning the national long-distance network of about 4,000 kilometres. We looked at how we take advantage of and leverage all our infrastructure. We looked at how we take advantage of the incredible synergy that we have between the IT team at HGS and the NXTDIGITAL team to grow the business and its requirements for Artificial Intelligence Analytics and Automation.

And we came up with CelerityX, which has now launched NetX and is in the process of commissioning customers on NetX, SkyX, HomeX, and OneX. So effectively, the good thing is that the business is clearly on track. It's working as a strong, cohesive unit. And the benefits of the synergies are clearly beginning to come out. With that, I would like to wrap up, and of course, we would be happy to take questions at the end of this. And I would like to hand over this to Srinivas Palakodeti, who is our global CFO. Pala, over to you. Thank you everyone for listening patiently; it is much appreciated.

Srinivas Palakodeti: Thank you, Vyns. I hope all of you are able to hear me clearly. I will start with the financial section. I am on slide #16; this is the financial performance for the quarter. As you will see, operating revenues have grown 7.6% on YoY basis. And they have grown about 2% on a sequential basis. Looking at the operating EBITDA, there is a substantial increase of about 40% on a YoY basis, and on a sequential basis, EBITDA is up by about 18.1%. This strong performance is being driven by the very successful TekLink acquisition. Other parts of the business, like Canada, also mentioned in our earlier calls, we are taking a lot of steps to rationalize our real estate and other costs. And you are seeing the benefits of those cost measures, as well has shown improvement in profitability.

During this quarter, there is a one-time exit of close to Rs. 6.5 crore above EBITDA as well as accelerated depreciation arising out of the exit of one property in the US. As Partha mentioned earlier, the PBT (before exceptional items) for Q3 FY23 is a loss of Rs. 28.4 crore that has now turned around into a profit of Rs. 16.2 crore for Q3 FY24. So clearly, there is a significant improvement in profits. On a sequential basis, there is a small drop, despite the increase in EBITDA that is currently being driven by the drop in Other Income. And as you will see from the publication page, we have losses arising out of FX fluctuations. These are year-end and quarter-end exchange rate variations. Less in India, but primarily in other markets where we operate where the local currencies have appreciated against the US dollar.

Moving on to slide #17, 9MFY24 numbers, operating revenues are up 2.4%, but the thing to really call out is a very strong operating EBITDA improvement. When we say operating EBITDA, this excludes any impact of the other income. So, it excludes our FX fluctuation or interest income. And you will see a very strong performance here again; EBITDA is growing by about 39.3% over the nine-month period, YoY compared.

Moving on to slide #18. This is the summary of financial performance. As you will see, the total EBITDA for the quarter is 16%, compared to 11% in Q3 FY23. And pretty much at the same level, marginally higher than Q2 FY24, where EBITDA margins were 15.9%. Operating EBITDA showed a significant improvement over Q2 FY24 as well as Q3 FY24.

Coming back to the items on exceptional items. For the quarter ended December 2023, there was a one-time income impact of Rs. 33 crore; this is coming from the erstwhile healthcare business, and, on top of this there are also some tax reversals. So that's why you will also see a Rs. 47 crore negative number on the tax line for quarter ending December 2022. Because of the absence of these two large items, the PAT for quarter ending December 2023 appears lower than the profits for quarter ended December 2022. But from an operational performance, if you look at PBT (before exceptional items), you will see a strong turnaround from a loss of Rs. 28.4 crore to a profit of Rs. 16.2 crore. On a sequential basis, the declining profit is primarily on account of Other Income. As you will see, there is a drop of about Rs. 16 crore in Other Income between Quarter ending September and Quarter ending December.

Going to the 9M FY24 performance. Just to call out a strong improvement in the operating EBITDA as well as the operating EBITDA percentage. The total EBITDA is lower primarily on account of a drop in Other Income. As you will see, that has come down from Rs. 403.2 crore to Rs. 313.1 crore. There are two big drivers for this: one for the 9M ended December 2022, where there was forex gain of Rs. 72.5 crore that has come down to Rs. 26.83 crore for the 9M ended December. Also, the other components of Other Income have also come down. This is primarily a reduction in interest income. You will recall that there was a buyback of Rs. 1,020 crore, and related buyback tax. There has been a large outgo during FY24. So, that has also led to a reduction in interest income.

So, the overall drop in performance is on account of the drop in Other Income. And also, as I mentioned earlier, there is an absence of exceptional items and tax reversals. So, that's why, at a PAT level, our profits are lower, but if you look at the line PBT (before exceptional items), it's a strong performance.

Moving on to slide #20, this is obviously after the buyback, the equity share capital is down to Rs 46.5 crore in December 2023 compared to Rs 52.5 crore in March,2023. On our net treasury surplus, we were at about Rs 6,376 crore as of 31st March 2023 that has come down to Rs 4,893 crore primarily on account of the buyback, taxes on buyback as well as the funds which went out for the acquisition of TekLink. On DSO days you may see an increase between March 2023 to December,2023. But I will assure you this is under control, there is an amount of seasonality, but if you look at it, it will come up subsequently, there is an improvement in DSO days between September and December 2023.

On the cash flow from operations, we have about Rs 49 crore from operations and to call out again there is close to about Rs 450 crore which have gone out for the TekLink acquisition. Also, we have cash and cash equivalents of about Rs 690 crore as of 31st December 2023. That is only cash and cash are equivalent.

And if you move to slide #22. This shows the total position of net cash and treasury surplus. That stands at Rs 4,893 crore as compared to Rs 4,875 crore in September 2023. So, there's an increase of close to Rs 19 crore. And as you can see, we have a very strong balance sheet with net worth of about Rs 7,561 crore and a gross debt of about Rs 920 crore. So, from a balance sheet point of view, we have a very strong balance sheet.

Moving on to income by business, 57% of it is coming from BPM business, Digital Services account for about 36% and 7% is coming from Other Income.

Moving on to slide #24, this is revenue by origination. US continues to be the highest at about 31%, India including the media businesses is next at 30%, followed by Canada and UK which are roughly of the same size at 16% each. And as we mentioned, we have seen significant growth in Diversify, the acquisition which we made two years ago. And revenues from Diversify /Australia account for about 5% of the total revenues for the quarter.

Moving on to the next slide, revenue by vertical. Media accounts for about 31%. The BPM business also has media clients along with the media business in India. Consumer & Retail is the second largest at 20%. And Telecom and Technology account for 15%. Public sector is 10% that is primarily from the UK, and we do have some in Canada as well. From a client concentration perspective, the top customer accounts for about 11%. The top five customer accounts for about 27% and the top 10 customers account for over 38%. We are not seeing any significant changes here.

And in terms of DSO days, as I mentioned earlier, it was down by about five days from about 68 days as on 30th September, 2023, to about 63 days, so there's a reduction of five days between 30th September, 2023 and 31st December, 2023, as reflected in the cash flow statement, as well as the fact that overall net treasury surplus there is an increase between December and September, 2023. That's all I had. We would like to invite you all to ask any questions you may have for us.

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

Vivek: IT industry is facing headwinds due to slowness in demand from developed markets. There is some noise that the demand has bottomed out and that green shoot is visible. What is the sense that HGS is getting in terms of sectorial headwinds, and how is global BPM market responding and what is the outlook for FY25?

Partha DeSarkar: So that's a great question, a little bit of a crystal ball gazing. I would say that decision making cycles are still slow. And I did try to refer to that in the call earlier, where, as you would know that the interest rates haven't dropped. Nowhere in the world the federal banks have dropped interest rates. So, they are still high, cost of credit is high, as a result of that economies are still uncertain as to where this has headed. And decision making is slow in terms of large spends. So that continues to be the reality today. Whether it has bottomed out or not, I frankly don't think I am qualified to comment on whether it's bottomed out. I can tell you where the new opportunities are, in the field of large language models and generative AI, that is going to be as transformational as the internet was in the 1990s in the way it created new business models and disrupted old business models. Generative AI in many ways is going to do the same for many industries across the board. And since it's a new technology that kind of levels the playing field between established big players and newer small players like us, because nobody has an edge on anybody else. So that is a new opportunity area I think that will drive growth and going to drive growth significantly. So that's the outlook that I can talk about right now. Generative AI being general purpose technology, cuts across verticals, cuts across service lines and it will be deployable across industry verticals, they will be deployable across service lines, that I believe is going to drive future growth. It is slightly long term, not long term because you have seen the speed of adoption, it's actually got adopted really fast. So, it's probably not in the long-term outlook, it's probably within the medium-term outlook that I can talk to you about right now.

Vivek: Thank you, sir. And just one final question, sales growth in the last quarter has largely been subdued with the company's revenue in the range of Rs 1,100 to 1,200 crore, margins have been highly volatile as well. How do we see FY25 turning out to be in terms of revenue growth and profitability?

Partha DeSarkar: Actually, if you see the quarter-on-quarter performance it is actually quite positive, you would have seen the numbers and I'm happy with those numbers. We don't give guidance for the coming quarters, we do see growth as per our traditional growth rates, and we would definitely try to improve the margins. So, we won't be able to give you specific numbers, we don't give guidance.

Moderator: Thank you. Next question is from the line of Janish Shah an Individual Investor. Please go ahead.

Janish Shah: Maybe my understanding with this company has been very limited. So, I apologize if I have been very naïve or maybe asking a naïve question. But when we are looking at your business process management business, you clearly said that generative AI is going to be the cornerstones for growing this business, if you can just give a little bit of an understanding as to how the world is changing, because what we understand, earlier the BPM business has been a cost arbitrage business, where the companies were either work through the third party, because there is advantage on cost, which people will be getting it when it comes to implementation of the technology, How will you see this business transforming in a sense that customer itself can deploy those technologies and get the benefits rather than outsourcing it to the companies like Hinduja Global or any other BPM companies, which may be offering them probably, or it would be a little cost effective to do it in-house?

Partha DeSarkar: Companies outsource both BPM services and technology services, and we are on both ends of the spectrum. It's not that because it's technology that they can do it in-house, even technology services are significantly outsourced today. And we play in that field, we also have a technology arm, which has about $100 million of revenue today, which is a combination of HGS Digital and TekLink.

So, just because the technology is generative AI that is coming, it doesn't mean that people will take the processes in-house and try to deploy the technology themselves, they will still go and depend upon outsource service provider to provide that technology, because people who are in the insurance and banking space would rather spend their time on improving their core product, as opposed to try and improve their service. That is what traditionally has been outsourced and I don't see that trend changing. So, the answer to your question is, just because this technology is available whether people will take it in-house, I seriously doubt it. The technology will be deployed, and they will depend upon third party outsourcers like us to help them deploy the technology.

Janish Shah: Okay. My second question with regard to this is, when we bring in these or use these technologies, obviously the automation probably will help us improve the margins, the revenue growth or probably there will be a cost deflation, which may happen because of the implementation or use of generative AI in our business. The question around that is how we are going to see the revenue growth, in the sense that do we need to pass on these benefits to our customers, which may remain like the business less in margins, to what extent the margins can improve from here because you said the outlook on the generative AI adoption in medium term has been very encouraging. So, if you can give some sense as to how do you see your business shaping up in the next two to three-year period, in terms of the revenue or in terms of the margins trajectory probably which you would like to build?

Partha DeSarkar: That's a very good question. Part of the technological deployment may end up cannibalizing some of our revenues. So, I would still use the word may, I believe that today's service levels are less than optimal. If you look at hold times when you call up helpline, the hold times are significantly high 10 or 20 minutes etc. that is because our clients don't deploy enough number of people to answer those calls. I believe with technology deployment, that hold time will actually go down, which means that if you call somebody or if you call a particular helpline, you will get an answer within 20 or 30 seconds. And that answer may not be a human being answering it, it will be a self-service bot who is answering it. So that 10 - 20 minutes hold time that you have today will convert itself into revenue, because you will not have the hold time. But by technology we will be answering this as opposed to using only people. So that is the place where it is a little difficult for me to do a crystal ball gazing and tell you whether it's going to impact revenues. Because I believe that 10 to 30 minutes delay is pretty normal for many care and help lines will go away, and that is going to create revenues. But you will not need as many number of people to answer those queries as people will be able to use technology to answer those queries and that is where I believe the margin outlook will improve. So, revenue, I won't be able to give you a clear picture, but I am reasonably clear that the margins will improve significantly going forward.

Janish Shah: Could we get some sense, like today on the EBITDA margin side, it’s been around like 11%-12%, where would it go? Is it going to be like mid-20s, I am sure the improvement is going to be there, but if you can just give some sense about the trajectory where it could land up?

Partha DeSarkar: Yes, look, we will improve for sure. We don't give guidance as I mentioned earlier to the earlier caller who had ask for that similar number. We don't give guidance, so we will try and see the margins improve, I won't be able to give you a specific number today.

Janish Shah: Okay and on the digital media and broadband business, if you can just give a little brief about how you want this business to shape up in terms of the deliveries and transformation, as you said the business is undergoing a transformation. And how do we see it again, as that business needs to turn positive. So how do we see the business shaping up in terms of the margins in that and what are the KPIs or what are the medium-term deliverables which you have set yourself for this business?

Partha DeSarkar: Yes, so that's a question I would allow my colleague, Mr. Vynsley Fernandes, to answer. So, Vyns will you please take over from here.

Vynsley Fernandes: Sure. So, Mr. Shah, good afternoon. The way that this business is, the fact remains that even today as I speak to you, the television in India, we talk about OTT, we talk about people using digital solutions, but the fact is, penetration of television in India is still around 65% to 66%. There is significant headroom available for growth, that's number one. Number two is that wire broadband is still a long way to go. While we have close to just under 300 million households in the country today, 288 million or so, about 35 million have wired broadband connection. What I'm trying to establish for you is that the kind of headroom available for growth is significant. And if you look at broadband, we took a conscious decision to operationalize a significant national long-distance network across India. We have completed about 4,000 kilometers already; we are looking to close just probably under around 7,000 kilometers. Also, the idea is to connect as many people in terms of quality service. But the one thing when you look at, when you asked in terms of what is the horizon, the important thing that we are focusing on as an organization is therefore to effectively work on the path to profitability, as in significant profitability is to provide an integrated solution. So, wherever our growth is, we are not just offering either digital television or we are not just offering broadband. We are saying here's the combination product, an integrated product of digital television and wired broadband in certain markets with speeds up to about 1,000 Mbps, OTT we have got a product called NXTPLAY, which is an OTT aggregation solution. It offers about 300,000 hours of OTT content. And then on top of that, we are going to layer our other products like Voice over IP, Wi-Fi and of course bespoke CCTV solutions. So, from the roadmap perspective, the strategy, the initiatives that we have taken over the last couple of years coming out of the lockdown, we have obviously upped our game significantly. Thanks to the integration, if I may use the term carefully with the HGS business, we have also started to look at how do we leverage future technologies through our business. So, the aspect of artificial intelligence, analytics automation is already there in our NXTPLAY OTT aggregation. CelerityX is the second beneficiary where all the product portfolios that we are rolling out for enterprise businesses and like I just mentioned to you, we are very proud to have used NetX solution for the inauguration of our Shri Ram Mandir in January. All of those are coming together as a part of a well thought out or carefully thought-out plan which has milestones at every stage. Our milestones are very granular in nature Mr. Shah, we look at for example key markets like I was sharing with you, for example if you look at the NLD connectivity between Mumbai and Nagpur, then our target is not just to use a kind of spray method, but to use a very focused method and say, listen these are the 10 markets, these are the 10 cities and towns on the way between Mumbai and Nagpur, or between Mumbai and Ahmedabad, where I want to not just provide broadband, but I want to provide and be a market leader in that space, I want to be able to have a significant presence. So, those are the KPIs sir that we are keeping on putting together and you will keep on seeing that traction happening quarter-on-quarter. I hope I was able to answer your question, Mr. Shah.

Moderator: Thank you. Next question is from the line of Vignesh from Vig Associates. Please go ahead.

Vignesh: My question is, what is one major growth driver that the company is looking for the next three years. And what's the strategy in place to stabilize the margins?

Partha DeSarkar: So, I talked at length about generative AI, that's the single most important growth driver that we are going to use to grow the business. And I did talk about margins. I believe that as we deploy more technology, our margins are going to improve.

Vignesh: Thank you. I just have a follow up on that one. HGS is developing its own proprietary model of Generative AI, and you have any figures of what kind of investment has gone in it so far. And how's the company going to pitch it to existing and probable customers, Also, its competition from the likes of Google, Microsoft, and others?

Srinivas Palakodeti: Hi, this is Pala here. So, we have a solution called Agent X which is geared specific to the markets and the clients, we can also use it for internal use. We have spent close to about three and a half million dollars on developing this solution and rolling it out.

Moderator: Thank you. Next question is from the line of being Dinkle Shah an Individual Investor. Please go ahead.

Dinkle Shah: So, my very first question is how foreign exchange currencies impacted our Q3FY24 result?

Srinivas Palakodeti: Okay. When you talk of foreign exchange, there are two parts, one, there are cross currency; we have a fair amount of offshoring business where revenues come from markets like US or UK and the delivery happens in countries in which better cost are incurred in a different currency like India, Philippines, etc. where typically we take forward covers in markets like India and Philippines to reduce the volatility. In the current quarter, we do have, if you look at our publishing page on the FX side, for the quarter ending December of this quarter there is a loss of about Rs 10.62 crore compared to Rs 22.4 crore of gain in quarter ending September 2023. But most of it is really temporary and this is based on restatement of assets in a different currency into a local currency. For instance, if I have treasuries to surplus in a market like Jamaica, and that is in dollars, and the Jamaican dollar appreciates against the US dollar, then for the quarter I will have to book a loss the difference between rates between September and December 2023. But if the Jamaican currency were to depreciate again, then we will have gains. So, I hope that answers your question.

Dinkel Shah: Yes, it does. So, are there any other hedging strategies in place that you might use to mitigate this fluctuation risk?

Srinivas Palakodeti: Okay, for where there are actual cash flows, I want you to expect we take forward covers, for pure balance sheet items which is just exchange fluctuation between 30th September and 31st. March or say December then we don't hedge really because it can't really be hedged. There are instruments which may be available, but sometimes the solution can be worse than the problem. So, we don't do that.

Dinkle Shah: Yes, fair enough. Just one more question, can you provide some insights on factors that are driving our recent margin improvement?

Srinivas Palakodeti: So multiple things. So Canadian business has performed very well. TekLink is performing very well, digital business has also done well. And as mentioned earlier, we have taken several cost correction measures. So, you are seeing the benefit of that as we go along. There was a one-time impact of about Rs 6.5 crore because of the cost of exit, but it will be more than made up by lower cost for the rest of the year. Also, what's happening is, we are reducing our onshore delivery footprint, especially in markets like the US and that business is being replaced, not all of it, but large portions of it, the work is going offshore. So, while the revenue growth may be muted, moving from onshore to offshore adds to our profitability.

Moderator: Thank you. Next question is from the line of Janish Shah, an Individual Investor. Please go ahead.

Janish Shah: My question was earlier on the digital media investments; till what time we are going to remain in an investment phase in that and for how many years it will take for you to reach that 7,000-kilometer kind of a mark and seed this business to grow. Second on the treasury side, you already have a very big treasury and cash on the book. Is there any strategy which is being designed by the management or the board for it? How do we wish to utilize this cash over the next two to three years kind of a period, that’s my question.

Srinivas Palakodeti: Let me take the question on treasury first if you don't mind. The bulk of the cash has come from the sale of the healthcare business which we concluded a couple of years ago. Post that we have used money for the acquisition of TekLink, we have used it for Diversify, we have given dividends and special dividends, we've also done a large buyback, etc. so, a fair amount of cash has been used in the process. We still do have as you pointed out surplus cash. This will be deployed very carefully, either in acquisitions, or for investing in the growth of the business. We will come back and see if there are more opportunities. But that's the current outlook.

Vynsley Fernandes: Thank you Pala for the answer to that question. Mr. Shah, going back to your question on the investment. As I said, we are not investing in the connectivity itself or laying fiber or in any of that, these fiber or this connectivity is already available through various companies like BSNL and for example using the optical ground wire of Maharashtra State Electricity Board or companies like those Odisha Power Transmission, all we are doing is putting in the necessary electronics and contracting that connectivity, so that we can manage it ourselves and therefore make it more profitable and then kind of optimize it to the biggest extent possible. So, there is no significant investment in technology, all the investments in technology have already been made. If you look at it, we are the only Headend-in-the-Sky platform in the country today. Also, we have invested in a state-of-the-art technology broadcasting center in Noida. Same thing with broadband, we have already invested, and we are pretty much done and dusted with it. The only investment if any is the variable investment in terms of the customer premise equipment. And that's by and large kind of paid for by the customer. So, there's no real capital expenditure outlay that we see in terms of it, our focus to achieve our targets or our KPIs or our profitability is now optimizing all the investments that we've made, optimizing the fact that the things are now stabilizing two to two and a half years after the lockdown etc. And now growth we are seeing in multiple markets happening. So, that is the focus of the organization. That is what will drive us to grow our subscriber base. Last year, this time we were overall about 5 million houses that we were touching. Today, we have already crossed about between broadband and DTV just close to the 5.75 and 5.80 million mark. So, there has been a significant growth that reflects in the financial performance of Q3. We'll see that keeping on improving as the customers who come in on the ground floor start growing their ARPUs and seeking higher value services going forward. So that is very clearly the strategy that we have adopted.

Janish Shah: So, my question was, could we get some more granular details about how the ARPUs are behaving in two sets of businesses especially in our broadband and how profitability differs in these two kind of businesses which you have?

Vynsley Fernandes: In digital television, so just to our ARPUs when you look at it and that's something while it's part of our KPIs internally, are well within the range that the industry talks about which is between Rs.200 – 300, because don't forget that there is an intermediate, a local cable operator or a last mile owner or a digital service provider there. In terms of broadband, since it's a growing business we are also seeing for example, one there is still a pricing discovery that's happening from a customer perspective, we have been very cautious at all the new markets and I mentioned this in the course of the conversation, all the markets that we are going to, we are not seeing too much of pushback on pricing, because the demand in those markets that we are entering especially on the NLD route is for a strong quality of service, for a reliable broadband connectivity service, or reliable broadband connection, a connection that can give you speed and that you can keep on upgrading your speed as and when you need it or as and when you can afford it. More importantly, giving you a strong quality of service as required. So there again, it ranges anywhere between Rs175 to about Rs300 - 350 for a franchisee customer and it could go any price for a broadband direct to home customer or fiber to home customer. And to be honest, KPI's is not so much important as is the duration of the customer. So if I sign you on tomorrow and if I were to have two options of either a Rs 700 pack per month or I sign you on a Rs 300 pack for three months, I'm happier to kind of sign you on a long duration pack, because I know there is better chance of renewal because the cost of renewing customers on a shorter duration pack is always more challenging. So, that's the kind of metrics that one would look at.

Moderator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to Mr. Partha DeSarkar for closing comments.

Partha DeSarkar: Thank you once again for joining us for the quarterly earnings call. We hope to see you again towards the end of May when we have our year-end fourth quarter earnings call as well. Once again, thanks for taking the time.

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

Vynsley Fernandes: Thank you everyone, have a good weekend.

Srinivas Palakodeti: Thank you. Bye-bye.

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.