

Hinduja Global Solutions Limited

Q2 FY2010 results Conference Call

October 27, 2009

Moderator: Good evening ladies and gentlemen. I am Suresh, the moderator for this conference. Welcome to Hinduja Global Solutions Limited Q2 FY10 Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Mayank Vaswani of Citigate Dewe Rogerson. Thank you and over to you sir.

Mr. Mayank Vaswani: Thank you Suresh. Good evening to everyone in India and good morning to our overseas attendees. Thank you for joining us on this call to discuss our financial results for the second quarter of FY 2010 which was announced earlier today. We have with us Mr. Partha Sarkar, CEO and Mr. Anand Vora, CFO of Hinduja Global Solutions Limited. Before we begin, I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties, please refer to the investor presentation hosted on our website. Documents relating to our financial performance have been emailed to all of you earlier and have also been posted on our website. I would now like to invite Partha to provide key highlights of our performance for the quarter.

Mr. Partha De Sarkar: Good evening to everyone in India and good morning to our overseas attendees from the US. Thanks for joining us on the call. I trust that all of you have been through our numbers that were sent to you earlier today and I will take you through some of the operating highlights before handing it over to Anand.

First a quick walk through the numbers. Our Q2 FY10 revenues were Rs. 225.0 crore, approximately US dollars 47.0 million, an increase of 18.2% over the corresponding period last year. EBITDA was at Rs. 45.4 crore, approximately US dollar 9.5 million, an increase of 26.4% over the corresponding quarter last year. PAT was at Rs. 37.8 crore, approximately US dollar 7.8 million for the quarter, an increase of 134.5% over the same quarter last year. For analysts who have been tracking us for some time, you know that because of the seasonal variation, our Q1 and Q2 tends to be lower than Q3 and Q4 due to a

tapering off of the holiday season in Q1. This year, for the first time, we have managed sequential growth for two consecutive quarters following the drop-off of seasonal revenues. Our numbers therefore demonstrate a sustained top line and bottom line growth. This is in line with our statements a few quarters ago when we mentioned that the environment was significantly different for ITES players vis-à-vis the IT players. The uncertainty created by the gloomy environment pushed the CAPEX spends on the backburner, but resulted in a hastened need for belt tightening and OPEX savings. That is where we came in and our results demonstrate that.

On the international macroeconomic front, one is encouraged by statements of the early sign of revivals in developed country front. While sustenance of the initial momentum is still unsure and there are widespread differences and opinions amongst pundits, we are relieved that at least some people are talking about positive things. At the end of the day, macroeconomics and growth is also a lot about sentiments and the sentiments are good at this moment.

In the India domestic market, there is clearly an improvement in terms of sentiments as well as macroeconomic indicators like IIP, exports, growth of sectors like IT, auto, etc. There is a revival in terms of business confidence with easier availability of credit and the funding environment has significantly improved as evinced by the number of IPOs and QIP being launched over the last two-three months. We believe this improvement in a macroeconomic environment will help us to drive further growth in our operations. That said, businesses continue to keep an eye on managing cost while simultaneously pursuing growth. This is markedly different to the bull run of 2003-2007 where high business growth resulted in an increase in wasteful spending. We are buoyant by our ability to drive growth over the last four quarters which have also happened to be the four of the most difficult quarters in the recent memory. Having done that in a challenging environment makes us believe that we are in a good position to capitalize on opportunities in a more conducive business environment which is evolving.

We anticipate a healthy proportion of our organic growth to arise from our objectives to offer end-to-end solutions to our customers. We aim to do this by partnering with specialized IT players and combining our individual strengths to compete with the platform-based BPOs. We already have partnerships and understanding with existing platform technology vendors on a smaller scale and we will

seek to replicate these as we pursue larger contracts. We intend to implement this strategy through a joint go-to-market strategy where we would bid for large and complex contracts through consortium mode. We will seek to implement joint risk and reward so that it is a partnership in a true sense. Other elements for our strategy for inorganic growth include the penetration of newer geographies and entering new verticals. We will also look to cross-sell our services from voice to non-voice and vice versa as well as offshore to onshore and vice versa.

Another aspect I would like to share with all of you today is our internal goal of enhancing business excellence. We have always stated that we are actively pursuing growth and we are clear that we are only chasing profitable growth. However, we can also look beyond profitability and strive for business excellence. By business excellence, we mean a positive return and experience for all stakeholders as opposed to rewarding only one or two classes of stakeholders. The business excellence program would involve a complete understanding and analysis of our roles vis-à-vis customers, employees, associates, shareholders, creditors, and suppliers. We can break down each aspect of our dealing with these multiple stakeholders to ensure that we attain a high level of excellence therein and follow best practices in each sphere. Apart from branding excellence in each process, business excellence aims at driving improvements and innovation, overseeing of quality management of all-round perception and a robust system of checks and balances. Business excellence aims for optimum utilization of all the resources and is designed to drive organizational performance level through a set of clear-cut systems and processes.

I will now take you through our business outlook for clients. We have added four clients during the quarter. We continue to have 33 clients with an annual billing in excess of USD 1 million and of those, 2 clients have an annual billing in excess of USD 20 million.

So far as infrastructure and facilities are concerned, during the quarter, we had 1,000 seats in our second site in Manila. Of this, 700 seats are currently in use and 100 seats are being used for training purposes. The total seat capacity of the company now stands at 14,065 and utilization for the year was at 76%.

Employee front, this quarter we continued to witness a moderation in attrition rate compared to last year. We have a slightly reduced headcount at the end of this quarter compared to the immediately preceding quarter due to the

seasonality in client operations. We now have 13,969 associates as of September 30, 2009.

To conclude, I would say that we are confident that we will be able to deliver steady and consistent results over the next few quarters. With that, I will now hand over the floor to Anand.

Mr. Anand Vora:

Thanks Partha. Good evening to you all. I will take you through the financials and then we can get into the Q&A session. This quarter, we had revenues of Rs. 225 crore, an increase of 18.2% over the same quarter last year. On a sequential quarter basis, revenues were up 1.5%. The EBITDA for the quarter was Rs. 45.4 crore, an increase of 26.4% from Q2 of the last financial year. On a sequential basis, EBITDA was up by 9.3%. More importantly, we have expanded our EBITDA margins by 130 basis points, from 18.9% in Q2 last year to 20.2% in the current quarter. This was essentially achieved through improvements in operating efficiency and supported by favorable currency fluctuation. Our consolidated PAT for Q2 FY2010 was Rs. 37.8 crore as against Rs. 15.1 crore in Q2 FY09, an increase of 134.5%. PAT was 4.5% higher on a sequential quarter basis. The PAT of Q2 last year was significantly affected by the hit we had to take on making mark-to-market provisions for outstanding forex hedges. This quarter, we had a gain of Rs. 1.0 crore on mark-to-market provisions on the outstanding forex contracts. The company's forward covers relate to underlying business transaction and are not speculative in nature. As of September 30, 2009, we have outstanding forex covers amounting to US dollar 6 million.

Now, I will turn to the revenue analysis provided by us. As is evident, there has been a strong growth in all geographies. Revenues in North America were up by 22.8% including currency expansion of 10.6%. Revenues from India registered a healthy growth rate of 15.7%. Even after adjusting for impact of currency fluctuation, we have registered strong growth in revenues. If you look at the verticals we service, revenue traction was robust in telecom and technology. Our verticals of health insurance and consumer electronics also posted healthy growth rates. Among the emerging verticals, BFS did well on growth registered over last year. Our top clients contribute 16% of total revenues and there was a marginal drop owing to seasonality. The contribution from our top 5 clients has increased as we are able to garner incremental business from existing clients. We have been able to marginally reduce the contribution to revenue for top 20 clients through new business.

Having said all this let me share with you some key viewpoints about our business. Our consolidated PAT for the quarter is just over Rs. 37.8 crore. Diluted EPS for the same period was Rs. 18.4 per share. We have a net worth of Rs. 981 crore which works out to a book value of around Rs. 478 per share. Of this, the amount represented by cash and cash equivalent is about Rs. 673 crore which works out to nearly Rs. 328 per share. Our closing share price of yesterday was Rs. 563.7. Based on these parameters, a quick look at some valuation parameters tells us that price to earning, price of Rs. 563 compared to EPS for the trailing 12 months of Rs. 64, the current PE ratio is about 8.8 times. Price to book, the current price to book ratio is about 1.2 times. Market capitalization in excess of Rs. 1,150 crore and revenues for trailing 12 months are at Rs. 880 crore. The market cap to revenue measure is at about 1.3 times. With an enterprise value of about Rs. 625 crore and EBITDA for trailing months at Rs. 167 crore, we are trading at an enterprise to EBITDA multiple of 3.75 times.

A quick word on the cash balance; of the total cash equivalent of Rs. 673 crore, a sum of Rs. 583 crore is in our 100% Mauritian subsidiary - Pacific Horizon. This amount was received as sales proceed of our stake in a telecom subsidiary. As we had mentioned earlier, it has been placed with overseas foreign branches of Indian banks as these are covered by the RBI's sovereign guarantee. As we have discussed earlier, there is a significant amount of cash available on hand for our use. We have shared that we have been conservative about deployment as there are clearly stipulated internal guidelines for acquisition strategy as we are clear that we are seeking real and incremental value from any acquisitions that we make. The debt on our balance sheet amounts to nearly Rs. 150 crore. Compared to our net worth and cash balance, this is not large and we believe that today this provides real value to our shareholders.

That's all from me. We can take questions now. Thank you very much.

Moderator:

Thank you moderator. We will now begin the Q&A interactive session for India participants. First in line, we have Mr. Ranjith Sivaram from PCS Securities.

Mr. Ranjith Sivaram:

I had gone through your presentation and your press release. In that your employee count has come down, is it right, from 14,000 to 13,700 something.

- Mr. Anand Vora: That's right.
- Mr. Ranjith Sivaram: Your employee cost has gone up while your employee headcount has come down, so I wasn't able to reconcile that, can you please help understand this?
- Mr. Anand Vora: You see we have about 13,700 people as on 30th September as compared to 14,000 plus people as on 30th June. We had announced an increment of about 4 to 4.5% which resulted in increase in the employee cost plus the new recruits have come in at a slightly higher base. So, that is the reason for the employee cost increase.
- Mr. Ranjith Sivaram: So all these new recruits are from India or from outside locations also?
- Mr. Anand Vora: Few would be from outside also. Actually it is a mix of India, Manila, and the US.
- Mr. Ranjith Sivaram: So, is it because you are confident in your future growth, that you have announced increment, can you throw some light on that?
- Mr. Anand Vora: No, we have consistently shown good performance and we believe as a philosophy to reward our employees since the company's results are good, they have contributed to the profitability despite the not so great overall situation economically, but since our company performance continues to be better, we have rewarded them with a small increment of 4% to 4.5%.
- Mr. Ranjith Sivaram: What was the reason for reducing the headcount?
- Mr. Anand Vora: Since the attrition rates have come down, there was no need to hold some extra people because earlier in some of the domestic processes the attrition rates were high and therefore people use to always keep bench strength in order to fill up the loss of seat caused by attrition. In the last 6 to 8 months, we have seen a sharp drop in attrition rates and therefore the number of headcount or I would say the surplus people whom we used to keep have been substantially reduced.
- Mr. Ranjith Sivaram: Can you throw some light regarding your mark-to-mark outstanding forward exchange contract.
- Mr. Anand Vora: We have total about USD 6 million contracts outstanding as of 30th of September which is about 2 million per month and these are in the range of about Rs. 45 to Rs. 46.
- Mr. Ranjith Sivaram: So, in case of an appreciating regime, you tend to gain?

- Mr. Anand Vora: Yes, our revenues are protected.
- Mr. Ranjith Sivaram: What is your view on the rupee-dollar?
- Mr. Anand Vora: That is a billion dollar question. We believe that rupee will continue its appreciating trend and we need to protect our revenues and at the same time, we do not see some of these things happening very rapidly. We are seeing today again rupee retract back. So, it is going to be a see-saw, but the overall trend is one towards appreciation and at the appropriate levels, we will definitely be covering and taking forward covers. However, we have to be conscious of the mark-to-market provisions and we do not want the revenues, especially the profits to swing pretty wildly by taking large forex covers.
- Mr. Ranjith Sivaram: What is your DSO?
- Mr. Anand Vora: DSO overall as a company would be a shade below 60, at about 56 days.
- Mr. Ranjith Sivaram: So, you will be ideally hedging your DSO.
- Mr. Anand Vora: We have a pretty much regular stream. All our contracts are long-term contracts, so we know what our revenues are going to be on a month-on-month basis. So, we basically cover it based on inflow streams which, of course, would be linked to the DSOs for sure.
- Mr. Ranjith Sivaram: So you basically follow a short-term strategy for your hedging contracts.
- Mr. Anand Vora: It is a mix of both. If the trend is clearly established, then we would take a slightly long-term view, but when I say long term, typically it would be a one-year view.
- Mr. Ranjith Sivaram: I was just curious regarding the cash you have on your balance sheet, is there any reason for holding on to that cash or are you waiting for the demand to pick up. Basically what is your strategy with that kind of cash on the balance sheet?
- Mr. Anand Vora: Just to take you back to the history, this cash is there because we sold our stake in the telecom venture which we had invested in and these are the profits which along with the investment made, which is sitting in Mauritius.
- Mr. Ranjith Sivaram: So how much cash did you get from the stake sale?

- Mr. Anand Vora: We got roughly in the range of Rs. 140 million, of which about Rs. 30 million was used for acquiring of AFFINA, our US subsidiary and Rs. 110 million was deployed in treasury. Now, the total amount stands at about Rs. 121 million and we still have AFFINA loans of roughly in the range of Rs. 15 million which are still to be paid back by AFFINA to Pacific Horizon.
- Mr. Ranjith Sivaram: This cash in your Indian operations or is it outside?
- Mr. Anand Vora: No, it is outside. As I mentioned, it is in our Mauritian subsidiary called Pacific Horizon.
- Mr. Ranjith Sivaram: Is the cash in bank accounts or have you deployed it in some mutual funds?
- Mr. Anand Vora: It is all lying with bank deposits for one year tenure and these are lying with foreign branches of Indian Banks.
- Moderator: Thank you very much sir. Next in line, we have Mr. Ruchit Mehta from HSBC Asset Management.
- Mr. Ruchit Mehta: Just in terms of the demand outlook, can you comment as to what you are seeing right now and has there been any improvement or any change versus what you have been seeing in the last few quarters?
- Mr. Partha De Sarkar: The demand continues to be steady and encouraging. I think the pressure on offshore has continued to build momentum and therefore we are seeing more and more of our clients demanding additional services from offshore locations. So, a lot of growth has come from our existing clients, offshoring more volumes of work to us.
- Mr. Ruchit Mehta: In terms of the spending pattern by customers, have you got any indication as to what the budgeting cycle is looking like for calendar 2010?
- Mr. Partha De Sarkar: Yes, actually by now most of our clients have finished their operating plans and therefore they will be finalizing their outsourcing and offshoring plans as well. It is not something that we have complete visibility as of this point of time. We expect to know by November-December.
- Mr. Ruchit Mehta: In terms of the balance sheet, there was a slight increase in debt in this current quarter, could you explain as to what led to that?
- Mr. Anand Vora: The Rs. 150 crore borrowings which we have, there has been a Rs. 10 crore reduction from Rs. 87 to Rs. 77 crore in India, but in the US, AFFINA is throwing up a good

amount of cash. We have repaid back the interest-free loan and we are borrowing from the bank and paying interest, so this gives us a good amount of tax shelter in terms of interest outflow which is a deductible expenditure.

Mr. Ruchit Mehta: Typically your business picks up quite dramatically in the holiday season, do you have any indication from the major costumers because by this time you would have started hiring or planning for capacity add, especially in the consumer electronic front?

Mr. Partha De Sarkar: Yes, this is business as usual so far as the client predictions are concerned in that we are planning for holiday season ramp-ups.

Mr. Ruchit Mehta: Is it better than last time, in terms of the outcome that the customers have given considering what happened last year?

Mr. Partha De Sarkar: It is at the same level. So, we are not seeing any increase or decrease, so it will continue to be at the same level.

Moderator: Thank you very much sir. Next in line, we have Mr. Neerav Dalal from Capital Market.

Mr. Neerav Dalal: What was the volume growth on a year on year and quarter on quarter basis?

Mr. Anand Vora: We achieved an overall growth of about 18% on a y - on - y basis and closely in the range of about 10% came from currencies when you compare with the last quarter. The rest I would say about a percentage would be on pricing and the rest is all volume.

Mr. Neerav Dalal: Could you give an outlook on the margins, they have been improving quarter on quarter, what's your take on that?

Mr. Anand Vora: As a group we don't give outlook, but you are seeing our performance and you are right that margins are improving quarter on quarter.

Mr. Neerav Dalal: Anything on the acquisition front?

Mr. Anand Vora: Well, we have been sharing information and it is still work in progress and we hope to consummate something and will inform all of you soon.

Mr. Neerav Dalal: The seat utilization is at 76% currently, how high can that go?

- Mr. Anand Vora: Well, that can go up to 85%. As we just mentioned that we have added about 1,000-seat capacity in Manila of which, about 700 seats are already put to use. But it takes a while to fill up the entire center. We will ramp up some of the seat utilization.
- Mr. Neerav Dalal: This 76% excludes the 525 seats or not?
- Mr. Anand Vora: No, it includes 525 seats. Therefore, we are always at this 85 level.
- Moderator: Thank you very much sir. Next in line, we have Mr. Pratik Mehta from Bajaj Allianz.
- Mr. Pratik Mehta: Sequentially, we have seen significant margin improvement, so just wanted to understand, is there any extraordinary item in this particular quarter which may not continue going forward in terms of margin performance or this performance is likely to continue over subsequent quarters also?
- Mr. Anand Vora: I think as we mentioned in the past, there is a component of foreign currency and roughly that would in the range of about 2% impact because of the rupee. So, if the rupee goes the other way, obviously to that extent, there would be a reduction. Otherwise, we are hopeful of continuing these margins and we are continuously striving to reduce further cost and improve the margins.
- Mr. Pratik Mehta: What is the revenue number in US dollar terms?
- Mr. Anand Vora: We have announced Rs. 225 crore for the quarter which works out to roughly US dollar 47 million.
- Moderator: Thank you very much sir. Next, we have a follow-up question from Mr. Neerav Dalal of Capital Market.
- Mr. Neerav Dalal: What would be the effective tax rate?
- Mr. Anand Vora: Well, it is in the range of 18% to 20%.
- Mr. Neerav Dalal: But this quarter it was about 10%?
- Mr. Anand Vora: Yes, that is because we got MAT credit. You see the budget announced the MAT percentage increase from 10% to 15%. Therefore, it resulted in us getting a MAT credit.
- Mr. Neerav Dalal: So going forward it would be in the range of 15 to 16%?
- Mr. Anand Vora: That's right.

- Mr. Neerav Dalal: In the analyst meet last time you said that if the economy moves up, you would be adding seats in India as well, so any take on that?
- Mr. Anand Vora: We have budgeted for two centers of 300 seats each for India domestic business and we are working towards incurring those CAPEX. We are in the process of identifying and creating a business plan for setting up those two centers.
- Mr. Neerav Dalal: And what will be the CAPEX for that?
- Mr. Anand Vora: Roughly the CAPEX would be in the range of about Rs. 15 crore for each center. We may not incur the entire thing this fiscal.
- Moderator: Thank you very much sir. Next in line, we have Mr. Ranjith Sivaram from PCS Securities.
- Mr. Ranjith Sivaram: Coming to your employee headcount, you added 700 employees and I just missed out on your seat utilization.
- Mr. Anand Vora: We have mentioned that our seat utilization is about 76%.
- Mr. Ranjith Sivaram: Regarding your business in the BPO. Lots of companies are going for business transformation and transaction which are a value add for platform-based BPO. So, what kind of strategies you have in place, are you planning to enter that kind of a market?
- Mr. Partha De Sarkar: I have strong partnerships in place with current platform vendors who we work in consortium with. So, people who have CRM platforms, people who have IVR platforms, people who have web development platforms, we do a joint go-to-market strategy. So, if the contract calls for both IT and BPO, as a consortium we bid. Depending upon how the revenue split is, whether it is IT led or whether it is BPO led, we decide on the consortium partner and accordingly the contract is defined with appropriate risks and rewards. So, that is our modus operandi. We are not trying to build IT capabilities in-house. There are enough midsize companies like us who are willing to partner with us towards joint bid in such opportunities. So, that is the route that we have taken.
- Mr. Ranjith Sivaram: So, you mean to say that when it comes to technology partner, you wish to do it with a partnership rather than doing it in-house?

- Mr. Partha De Sarkar: Yes, this has been going on for quite some time. We have had partnership for at least I think five-six years with technology vendors whom we jointly bid projects with and it has been a successful strategy for us.
- Mr. Ranjith Sivaram: Looking at the breakup of the revenues, your India International, it has come down Q-o-Q, what is the reason for that?
- Mr. Anand Vora: You see there were some revenues which were training revenues in Q1 which obviously didn't come to us in Q2 and therefore that is a marginal dip, but if you see on year on year, it has grown substantially to about 34%.
- Mr. Ranjith Sivaram: Going forward do you see the revenue traction to improve, do you have any ballpark figure and what is your overall take on the demand front?
- Mr. Anand Vora: No, as Partha mentioned at the beginning to one of the questions, the business is as usual. Now is a busy season for us and we are not seeing adverse indications. We have continued with our ramp-up to meet our customer requirements. So, it is business as usual and we continue to see the growth levels which we have been showing over the past few quarters.
- Moderator: Thank you very much sir. Next in line, we have Mr. Amitabh from SKS Capital.
- Mr. Amitabh Sonthalia: Are there any plans to improve our revenue diversification out of USD since most of our revenues are all USD denominated which is North America based, most of our international revenues are from North America right?
- Mr. Partha De Sarkar: What we have planned for is we just started our UK operation this year and we hope some revenues will kick in this fiscal, if not definitely you will see something coming in next fiscal. So, that is so far as diversification from the UK market is concerned. We are also progressing towards China and are also looking at starting Greenfield in Lat Am and in Australia. So, these are long-term plays and therefore it is going to take some time before you see that reflected in our revenue numbers. This is something that the strategy planning cell of our team is actively working on.
- Mr. Amitabh Sonthalia: Are we pitching to clients in these markets actively through our sales teams or have we established offices in these places or rep offices or anything like that?

- Mr. Partha De Sarkar: UK we have already started, meaning we are putting a team there and then asking them to sell in the market. In China and Australia, we are in the process of identifying joint venture partners, so that is going along well. That is how we architect.
- Mr. Amitabh Sonthalia: As you mentioned these are long terms in nature, but is there some kind of a timeframe we have in mind or any kind of target that we have in mind?
- Mr. Partha De Sarkar: I would say next fiscal we should be able to bring in some revenue diversity, some currency diversity in our revenues.
- Mr. Amitabh Sonthalia: As well as geographic diversity this comes along with that. But nothing substantial in this fiscal?
- Mr. Partha De Sarkar: No, not this fiscal.
- Mr. Amitabh Sonthalia: In terms of the size of our clients, when you look at the revenue breakup the top client, the million dollar plus or 10 million plus or 5 million plus clients, they have pretty much remained constant year on year as well as Q-on-Q, so is there any sort of move to pitch for larger deals. Now that as you mentioned, the climate has improved and the IT budgets are more likely to get finalized, so are we seeing any encouraging signs amongst clients or amongst the newer clients, new client wins?
- Mr. Partha De Sarkar: Traditionally the way we have grown is we have always concentrated on building our business from our existing clients which is why you will see the growth has been also driven substantially by core and newer revenues from our existing clients. In the BPO space, what happens, the deals where you had start-off, about 1,000 people have kind of gone away because people have realized that the quality issues under that kind of kick-off have actually burned their fingers quite a bit. So, nowadays what you see is smaller ramp-ups, smaller startups and slow ramp-ups. So, a client who has the potential would probably complete his full ramp-up on the second year or the third year. That is why when you see new clients, the contribution to revenue will start in a very slow note but will pick up in the second and third year.
- Mr. Amitabh Sonthalia: You mentioned that you have added four new clients this quarter.
- Mr. Partha De Sarkar: Two onshore US and two domestic.
- Mr. Amitabh Sonthalia: So is that the same as the net client addition or have we lost any?

- Mr. Partha De Sarkar: No, that's it.
- Mr. Amitabh Sonthalia: So this is net four client addition without any losses and any targets in terms of how many clients we plan to add in the next six months?
- Mr. Partha De Sarkar: I mean we don't really go by targets on client adds, we go by targets on revenue and we are on track on that. Unfortunately, I can't share with you an outlook on that. I can't give you a concrete number on that because we don't have a process of giving guidance, but whatever trend you are seeing in the first two quarters, we will sustain if not improve it in quarter three and quarter four.
- Mr. Amitabh Sonthalia: Just a quick word on your currency hedging policy, is it the same as before or has there been any change in that?
- Mr. Partha De Sarkar: No changes. As of now, we are still watching the currency, it's strengthened and then it is stuck at a point now and it has climbed back. So, we are watching this. At this point of time, given the volatility in exchange rates, we don't want to take long-term positions. We will want to take opportunistic positions on the short term to protect our book of business, but we will think quite a bit before we enter into long term unless we understand which way the trend is. As of now, it is too difficult to call actually. Everybody has a different opinion.
- Mr. Amitabh Sonthalia: Just a quick word on the acquisition front. I know you have addressed this in one of the previous questions, but we have been sort of expecting to close something for the last few quarters and somehow it has not happened yet. Are we still hopeful that we will find the valuations that we are looking for or are things just kind of getting more difficult to close in terms of any target?
- Mr. Partha De Sarkar: See, I can't give you a concrete answer to this question because that is not allowed. What I can say is that our engine is working well and you will have to be a bit patient to see the result but I won't be able to do any predisclosure on that.
- Moderator: Thank you very much sir. Next, we have a follow-up question from Mr. Ruchit Mehta of HSBC Asset Management.
- Mr. Ruchit Mehta: Could you just break up the current quarter's revenue into what was volume led and what was the impact of pricing?

- Mr. Anand Vora: As I mentioned, when you compare it with last year the same time, we have had roughly about 10.6% due to currency, about a percentage due to pricing, and the rest is all volume.
- Mr. Ruchit Mehta: And sequentially?
- Mr. Anand Vora: Marginally by just about 0.5 would be on currency. There is no price increase on a quarter on quarter basis.
- Mr. Ruchit Mehta: What is your outlook on pricing, I mean have you had any pricing negotiation in the current quarter?
- Mr. Anand Vora: Not in the current quarter, but we did have a price increase in the last quarter contracts.
- Moderator: Thank you very much sir. Next in line, we have Mr. Ashish Chopra from Ohm Stock Brokers.
- Mr. Ashish Chopra: Just wanted to ask what would be the breakup of the revenue in this quarter in terms of voice and nonvoice operations?
- Mr. Anand Vora: 73% voice and the rest is nonvoice.
- Mr. Ashish Chopra: Also with regards to the acquisition, as we understand you had a certain set of very stringent financial parameters. Apart from that, would there also be a focus on the operations in terms of voice and nonvoice or are there any criteria like this?
- Mr. Partha De Sarkar: Your question is not understood. Are you saying that in our acquisition whether there was any priority over nonvoice and voice, is that what your question is?
- Mr. Ashish Chopra: Yes sir.
- Mr. Partha De Sarkar: We believe that while the voice business has certain challenges, it is much more scalable in terms of nonvoice. So, we historically have had a very good track record of managing all the challenges on voice. So, we continue to be bullish about voice. Therefore, it is very high in our priority list. Non voice has two issues. One, it is more expensive as an acquisition and two; it is difficult to gain scale in nonvoice quickly. So, if we were to only look at nonvoice, our rate of growth will deteriorate rather dramatically. So, while it continues to remain one of our acquisition strategies, I wouldn't say that we prioritize one over the other. We are looking at both with interest.

- Mr. Ashish Chopra: As far as I understand, all of our nonvoice transactions are based out of India international, is that right?
- Mr. Partha De Sarkar: Partly yes. We do some fulfillment activity in the US. So, that is also there.
- Mr. Ashish Chopra: Lastly would it be possible to share the numbers on AFFINA as to how it has performed in terms of numbers?
- Mr. Partha De Sarkar: Its performance has been good, but we don't share geography wise numbers. That is the way we report.
- Moderator: Thank you very much sir. Next in line, we have Mr. Mitul Mehta from Lucky Securities.
- Mr. Mitul Mehta: Wanted to understand the reason why we keep a very large amount of cash in Mauritius?
- Mr. Anand Vora: Well, that is where it was made and therefore it remains there in terms of our subsidiary Pacific Horizon which had the stake in the Indian telecom erstwhile Hutch (now Vodafone) and since the stake was sold there; the money still continues to remain there.
- Mr. Mitul Mehta: If you just bring the money back, then you could give it back to shareholders as a dividend right?
- Mr. Anand Vora: It is not the best way to do it because it is tax inefficient if we were to do it the way, as you are suggesting. Secondly, we definitely have growth plans which is essentially through the inorganic route, through acquisitions, so we would require this money for our growth plans and therefore we decided to keep the money there and are scouting for opportunities to grow in the inorganic way.
- Mr. Mitul Mehta: Are the tax issues the same that Vodafone has had to face with the Income Tax Department when they sold the stake in Hutch?
- Mr. Anand Vora: Nothing of that sort. It is a simple thing, when you will see the Double Taxation Treaty between India and Mauritius covers only capital gain for which there is exemption. For dividend, you will be taxed at a full rate of 33%.
- Moderator: Thank you very much sir. Next in line, we have Mr. Sudhanshu Maroo from Baroc Capital.
- Mr. Sudhanshu Maroo: I was going through the recent annual AGM report in which there is a proposal to raise Rs. 500 crore. Can you throw some light on that?

- Mr. Anand Vora: It is just an enabling provision which we have taken. If you see, this was there even in the previous year. We just take enabling provision.
- Mr. Sudhanshu Maroo: Given that there is a lot of cash on the balance sheet to acquire, which is your strategy, do you think the acquisitions can potentially be so huge, that this money could be raised in the coming year?
- Mr. Partha De Sarkar: See, what happens is some of the captives that are now looking at divesting their captive operations in India come at fairly significant valuations. So, this is just an enabling resolution in case we find something interesting in the market. We don't want to be caught at that point napping where our cash in Mauritius may not be sufficient to consummate the transaction. So, this is just an enabling resolution for that.
- Moderator: Thank you very much sir. I would like to hand over the floor back to Mr. Partha Sarkar for final remarks.
- Mr. Partha De Sarkar: Thank you ladies and gentlemen. We look forward to building up on our success during the quarter and look forward to having you with us again. In case you have any further questions or query, please feel free to get in touch with Anand or our investor relations team. Thank you.
- Mr. Anand Vora: Thank you very much.
- Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
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