



firstsource

Q3 FY2010 Earnings Call Transcript – January 27, 2010

CORPORATE PARTICIPANTS:

- Mr. Ananda Mukerji – Managing Director and Chief Executive Officer
- Mr. Matthew Vallance – Joint Managing Director
- Mr. Carl Saldanha – Global CFO
- Mr. Mike Shea – President, Healthcare
- Mr. Santanu Nandi – Executive Vice President, Telecom & Media
- Mr. Sanjeev Sinha – Executive Vice President, BFSI
- Ms. Chandra Iyer – Executive Vice President, Asia Business Unit
- Mr. Mahesh Pratap Singh – Head of Investor Relations

Firstsource Solutions Limited
Quarter Three Earnings Conference Call, Financial Year 2010
January 27, 2010

Moderator: Good afternoon ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the Firstsource Solutions Q3 FY 2010 Earnings Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Mahesh Pratap Singh, Head of Investor Relations. Thank you and over to you sir.

Mr. Mahesh Pratap Singh: Thank you Sandhya. Good afternoon to participants from Asia and good morning to participants from Europe and US. Welcome everyone and thank you for joining us on our earnings call for third quarter ended December 2009. Please note that the results, fact sheet, and press release are available on our website www.firstsource.com and have also been mailed across to you. The transcript of this call will also be made available on our website. To take us through the results and to answer your questions, we have with us today Ananda Mukerji, our Managing Director and CEO.

Mr. Ananda Mukerji: Good afternoon everyone.

Mr. Mahesh Pratap Singh: Matthew Vallance, our joint Managing Director.

Mr. Matthew Vallance: Good afternoon.

Mr. Mahesh Pratap Singh: Carl Saldanha, our Global CFO.

Mr. Carl Saldanha: Good afternoon.

Mr. Mahesh Pratap Singh: Mike Shea, President, Healthcare Business Unit.

Mr. Mike Shea: Hello.

Mr. Mahesh Pratap Singh: Santanu Nandi, Executive Vice President, Telecoms and Media Business Unit.

Mr. Santanu Nandi: Good afternoon.

Mr. Mahesh Pratap Singh: Sanjeev Sinha, Executive Vice President, BFSI Business Unit.

Mr. Sanjeev Sinha: Good afternoon.

Mr. Mahesh Pratap Singh: And Chandra Iyer, Executive Vice President, Asia Business Unit.

Ms. Chandra Iyer: Good afternoon

Mr. Mahesh Pratap Singh: Just to outline the agenda of the call, we will be starting this call with a brief presentation outlining the financial performance of the company in the previous quarter followed by a Q&A session. Please note that everything we say on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the risks the company faces. The full statement and explanation of these risks are available in our prospectus filed with SEBI which can be found on www.sebi.gov.in. With that said, I would now turn the call over to Mr. Ananda Mukerji, our Managing Director and CEO.

Mr. Ananda Mukerji: Yeah, good afternoon everyone again, and thank you for joining the call. Let me take you through first financial

numbers for the quarter. Just one second, we are trying to work with the webcast presentation. Okay, so we are on slide #4 for those of you who don't have the presentation in front of them and for those who have it in a physical hard copy form. Our Q3 fiscal 2010 revenues are up 10.5% year on year, and 0.4% quarter on quarter. It has grown from 4,473 million rupees in the Q3 of last year to 4,840 million rupees. The operating EBITDA has gone up from 455 million to 682 million, and operating EBIT from 201 to 467 million. In terms of profitability, the profitability as you see is up on a year-on-year basis quite significantly. On a quarter on quarter basis, as we had mentioned in the last earnings call, we expected profits to be marginally down and that is what you see in the numbers here. Below the operating EBIT line, there has been a couple of changes on account of exchange gain losses in the foreign currency loans which we carry, there was a 43 million negative on that last quarter. This quarter, it is more less is flat and the result of that, profit before tax and profit after tax have gone up from the previous quarter. On a year to-date basis as well, the performance is fairly strong. Our revenues are up 14.6% year on year. Operating EBITDA is up 22.7% and operating EBIT is up 40.3% and operating margin has gone up from 8% for the first nine months of the previous to 9.7% in the first 9 months of this year. So, just to give a little bit more color in terms of the performance, revenue growth which was 0.4% in rupee terms is actually 3.6% in constant currency terms, and year on year growth of 10.5% in rupee terms is 14.8% in constant currency terms, so clearly some of the growth has been, on rupees terms have been eroded on account of the rupee strengthening. The increase is coming from a couple of areas, higher revenues from Telecoms and Media

Business Unit. That has been the major driver for growth through this year as well as this quarter. This has happened as ramps from existing customers, both onshore and offshore, which we have mentioned in the earlier calls have now started yielding revenues. We also had higher grant income in Northern Ireland ramps during the quarter. If you all recall, earlier we used to account for this grant upfront at the time of the receipt of the grant. Beginning fiscal 2010, the policy has been made more conservative, and the grant is now recognized over 5 years as opposed to the earlier policy of recognizing upfront. So, we recognize 40% at the time of the claim, and the balance 60% equally in 48 months after the first anniversary of the claim. These two positives on the Telecoms and Media side on account of ramps yielding revenues and grant income was offset by the seasonal reasons in Q3 on account of lesser number of working days plus some amount of softening in the BFSI collections, seasonal softening on account of lower liquidation rates during this quarter. We also had the quarter on quarter strengthening of the Indian Rupee against the Dollar and the Pound. At the operating EBIT levels, margins came down by 50 basis points largely on account of the continued cost of growth due to ramps in Telecoms and Media Business Units. The manpower addition which we have had in this quarter is largely on account of Telecoms and this is both in India and in the UK, so we have been carrying that cost in this quarter. As, I have also mentioned, the seasonal Q3 weakness on account of lesser number of working days and BFSI collection softness. We have also had lower than anticipated volumes in the Asia Business Unit. This is I think partly a result of the changes taking place in the industry right now. I think

there is some amount of volatility in terms of volumes at this point in time.

Some of the other relevant highlights. On the client side, we have had excellent relationships with our top customers. Seven of our top 10 clients have grown during this quarter. In terms of foreign exchange hedges, which stand at 32 million Dollars and 36 million Pounds, for fiscal 2010, 90% of Dollar is covered and 80% of Pounds is covered, and for Fiscal 2011, 85% of Dollars are covered and 70% of Pounds are covered. Employee strength has just gone up a little bit, 876 employees and reached 27,000 employees as of December 31st. On attrition, while we have seen reduction in attrition on onshore and in the domestic business which we are happy about, the offshore business has seen attrition go up from 39.1% to 43.7%. Part of it is due to the fact that the Argentina business which we are scaling down, as I mentioned in the earlier calls, attrition is taking place on account of that, and that is contributing to that increase. I think overall as well, we are seeing some signs of a labor market in India strengthening with other sectors of the economy doing well. In terms of seat capacity utilization, we have reduced the number of centers, two centers were rationalized in India during the quarter, and number of seats were reduced by about 400 odd seats, and seat fill factor as of December 31, 2009, was at 80% compared to the 76% on September 30, 2009. You would recall this number was around 70% at the beginning of the year, and our aim was to get it close to 80s to mid 80s, so we are happy that we have been able to get the seat fill factor up, and we expect that we will continue to get these numbers to go up in the coming quarters. Number of significant awards and recognitions which we wanted

to mention, one is we are recognized among the top 25 companies in India for excellence in corporate governance for 2009 by the ICSI. We received a third annual HFMA Peer review. This is designation for eligibility, receivables management, and collection services, and our MAP program. On the healthcare side, we also were ranked No. 2 amongst all US companies for the revenue cycle management services including what is called the extended business of this offering by KLAS.

In terms of mix of revenues, by geography as you see our US has come down while the UK has grown and India has grown. The US decline is on account of fact that some of the US businesses where we are strong in the US are growing at slower pace right now on account of the economic environment in the US as also the fact that the UK Telecoms space has seen strong growth as has the ABU business. Similar numbers are reflecting in the verticals mix as well. In terms of client concentration, as I mentioned, we are getting quite a bit of growth from our top customers, so client concentration in terms of top 10 as also the top client have gone up from where it was in the earlier years, so the top client has gone up from 11% to 13%, and top 5 clients have gone up from 31% to 35%. With that, I will now hand it over to the Business Heads to take you through the industry trends and the outlook for their respective businesses. First, I will request Mike Shea to take us through the healthcare business outlook. Mike.

Mr. Mike Shea:

Greetings everyone. Thanks Ananda. So as, Ananda said I am Michael Shea, and I am the President of Global Healthcare Solutions and CEO of North America. Our vertical market is the US, and we deliver our

services out of both US and India. Our vertical contributes 37% of the company's revenues and we have a little over 3,000 employees. A quick look at our industry trends, I think we must start with the healthcare reform in the US. Last week, as most of you know, the Democrats lost the key senate seat and now have lost the filibuster-proof majority in the Senate. This is significant because the house has to either pass the senate bill as is, which according to the speaker of the house, Nancy Pelosi, she quoted that they don't have the votes to do that or they have to change the bill, so the house can pass it within their members and combine the bill and send it back to the senate, which the bill now would be killed due to the Massachusetts Senator being elected as a Republican. Thus, Nancy Pelosi restated that they need to now take a pause and regroup. Additionally, they have little complication to this. The American public has turned against the Obama Healthcare Bill. It looked like it was going to pass for sure and now in the end, it is likely that this current bill is as we know it is, is completely dead. However, I do want to point out that we don't believe this healthcare reform is dead as the American public does want reform, but they want it done right, so given the importance the Obama administration has put on healthcare reform, experts are predicting that it is going to reach out to find common ground and we believe that they would end up passing a watered-down bill, so that they can find victory. We anticipate that this bill will not include sweeping changes to the healthcare market. As far as timing, it appears now that the new discussions will begin after the new senate resume in some time in February, and we don't anticipate any passage until probably the beginning of second quarter. Additionally, the economic recovery in the US as Ananda had

mentioned has not gained much traction. Unemployment is above 10% nationally and much higher in specific states. This economic downturn and specifically the unemployment rate continues to be somewhat problematic and has led to some softness on our market particularly on the payer side. With that said, we anticipate high interest in our healthcare services once the economic trends change, and we have some stability and reform measures coming out of Washington. Business outlook is possible, our specific programs have been affected by the US unemployment rate as I mentioned. This high unemployment rate has caused reduced volumes of people insured through their employers' master plan, and thus directly has impacted our payer service volumes and has created a temporary softness in the payer market in general. The same on unemployment rate, however, has assisted in a favorable trend in the provider segment. We are seeing significant sales growth and pipeline activity as compared with previous periods. Again, once healthcare reform has been finalized, we anticipate the mandates will likely result in increased coverage for the uninsured via the expansion in the Medicaid program, using the most conservative members from the current bill, an estimated 14 million additional people will be added to the Medicaid rolls. Thus, we believe the outlook for eligibility business is favorable. Our payer business will likely benefit from the mandates from Washington as well. The mandates that we expect would drive the need for our payer clients to provide those services in more cost effective and efficient manner, and thus we believe the need for outsourcing both onshore and offshore will increase with demand. To end, our business outlook is positive, and we plan to maintain our favorable trends via increased sales efforts

and continue to maintain our exceptional operational performance. Thank you.

Mr. Ananda Mukerji: I will hand it over to Matthew Vallance to take us through the Telecoms and then the BFSI segment.

Mr. Matthew Vallance: Thank you Ananda and good afternoon everybody. I will start off with the Telecoms and Media market, where we operate primarily in the US, UK, and Australia. During the quarter, we have seen good growth across all our different subsegments of the market and within Telecoms and Media, the subsegment that we operate in include a mobile and wireless area, broadband and high-speed internet, the fixed or wireline business, and the cable and satellite pay TV market. We are seeing growth across the subsegments during the quarter, and the revenue contribution from the vertical to the overall business has grown from about 24% in Q1 to 27% in Q3, and during the last quarter, we have added over 700 headcounts into the business, and the headcount as of end of December stood at 6,654 staff. We have similarly increased our capacity utilization in the business. We have actually despite adding headcount, we have actually reduced our number of operational seats by about 200, and that has taken our seat fill factor from 71% in Q1 to 83% in Q3. I will just cover the specific subsegments of the market that we operate in briefly, and starting with the mobile wireless market, where we have significant business in the UK, and we are continuing to see an industry trend of increased adoption of smart phones and including the Blackberry and the iPhone, and increased use of mobile data networks using the smart phone device. The iPhone is now available beyond the O2 network and most operators in the UK are now offering the iPhone, and

this is really driven smart phone growth in the UK and placed fair amount of strain on the 3G network facing pressure in terms of network reliability, and given that we have worked with two leading mobile operators in the UK, and the fact that both these organizations have licenses to sell the iPhone as well as the other smart phone devices, that will help to drive our volumes into the future. In the broadband or high-speed internet area, we are still seeing still this as being one segment where customer additions are increasing, and still has quite a reasonable level of market maturity, and customer additions are picking up for our clients. There is also, within the UK market and in the US, rollouts of next generation broadband networks, superfast networks, in particular in the UK BT is rolling out 40 megabyte superfast broadband network which should reach 4 million homes by the end of this calendar year, and the opportunity for us is that, that will provide opportunity as we work with 3 of the top 4 broadband providers in the UK, and they will have access to a faster network for delivery to their customers, we should increase their marketing activity and the types of services they are able to deliver to the end customer, and that should in turn increase business opportunities for Firstsource. Within the fixed line wireline area, the domestic side of the, residential side of that market, it is a relatively declining market, but we are seeing that the wireless operators and other telecoms providers are selling wireline products as an add-on, allowing them to sell more products to increase their average revenue per user by having more products into the same customer, and that is certainly providing us with potential growth as our UK clients focus on cross-selling new products into the existing customer base.

In the US, we are seeing that the state of the economy continues to impact the enterprise fixed-line business, and we expect to see that continue to impact volumes in that segment of the markets.

In the cable satellite Pay TV area, again it is an area of relatively higher new product activity with further rollout of products including hi-definition television. We are now seeing developments of IP, Internet Protocol, television, essentially internet TV products starting to hit the market, and again this level of market activity and this level of customer activity, we expect will provide the company with a good base for expansion of the business.

So, I will now move on now to the BFSI market, Banking, Financial Services, and Insurance market, and our primary markets are the UK and the US for this area of the business. Again, there are number of subsegments that we work within in this market including the credit cards, where we have strong collections proposition and retail banking and mortgages and general insurance. These are the segments that we operate in. During the quarter, we have seen relative steady picture for the business with revenues contribution, employee base, and capacity utilization relatively steady over the year and that has continued quarter on quarter. In the cards areas, where as I said, we are actually in the collections business in particular, we have seen continued stabilization of that area and volumes of business have been relatively high and we see those continuing to do so. So, on the recovery side of our collections business, we are watchful of the situation, but we are relatively optimistic. There are some uncertainties around the introduction of the new

Credit Card Act in the US, although there is a belief that the new credit card act will encourage improvement in the quality of debt in the market. Therefore, improve the liquidation rates. Also in the card area, we are starting to see some outsourcing interest in the UK market and I think it will provide us with some good opportunities over the next few quarters. In Retail Banking, we are now seeing and particularly the UK, we are now starting to see some fairly large scale market restructuring take place as businesses which have taken government funding are forced to sell off the elements of their business, and Northern Rock, a major government owned businesses is separated into a good bank and bad bank structure. There is also the restructuring in the market, one of the major characteristics of that is creation of a number of new banks, including Virgin, Tesco, and up to 10 others who have applied for the banking licenses with the FSA in the UK, and while we are generally in the market not seeing very major outsourcing, offshoring opportunities, we do see opportunities in supporting the launch of new entrants in the market as a significant market opportunity for us. In the mortgage market, the mortgage origination continues to be relatively subdued which again means, our volumes in this area to be relatively subdued, and we are seeing some evidence of books of business being sold off and again this could potentially provide an opportunity for us as a mortgage servicer to those books of business those are getting divested. In the general insurance area, where we operate primarily in motor insurance, we are seeing a very competitive market and direct insurance and price comparison sites really dominating activity in the market. We work for a major direct insurer and owner of a top price comparison site and we see that as a good place to be in terms of that

part of the market, and we are also seeing some major floatations and spin-offs, RBS Insurance is in the process of selling off its business for example. So, that concludes the review of the BFSI picture.

Mr. Ananda Mukerji: Okay, Chandra will now take you through the Asia Business Unit outlook.

Ms. Chandra Iyer: Thank you Ananda, and good afternoon to everybody. In the Asia Business Unit, we serve the clients in the domestic market, which is the India domestic market, and we serve them out of India as well. The large segments that we operate for customers in telecom and media and banking and financial services. We contribute about 12% of the revenue to Firstsource from this unit. Our employees have remained largely unchanged between the last quarter to now. We have had some amount of improved seat utilization and our seat fill factor has gone up from 74% to last time to 79% now, which is a 5% improvement. What we see as industry trend is largely in the telecom and media vertical, is that there is humungous amount of activity at this point in this vertical, in this industry in the current market. There are lot of new players, new entrants. There have been aggressive tariff plans that have been introduced almost like a tariff war for instance. There are few changes from a regulatory standpoint, there is number portability which is on the anvil. There is a future call charging which is probably on the anvil, so there have been a fair amount of changes in the way the industry is shaping up, and all this has caused a bit of high competition. We are working with the three of the largest players, particularly in the mobility sector, and while there is just bit of anxiety at this point about the changes, the future is obviously looking fairly strong.

However, what we have experienced in this quarter is the volume which was lower than the anticipated growth from a revenue standpoint. What we see going on, in the BFSI segment that the IRDA which is the regulator for insurance is bringing in a lot of reforms to this industry. That is seeing a fair bit of a spurt in terms of investments and growth in that sector. That should put forth a few opportunities, which one is looking forward to. And you know, banking has not really seen too much of traction at this point, but there are specific opportunities that seems to be providing a fair bit of prospect for us. If you look at the outlook, while the volumes on the telecom sector have been a little lower than anticipated, the growth is still there. There is intense growth of the existing telecom players into the newer circles and that is also offering us opportunities for growth. The future markets are expected to be quite deepening, and as a result, most of the customers of ours are reaching out into rural market. We need to be able to serve that market now. With our leverage present, we hopefully should be in a right position to manage that. We have some best practices from our international side, which is, with the change complexity that is coming in with MNP, which is first time in Indi, we do have the opportunity to address some of those new opportunities from our international experience, and that is what appears to be the business outlook for us. Banking and insurance sector is also offering some opportunities, so we see a fair bit of growth and activity. That is it from me.

Mr. Ananda Mukerji:

Okay, just spend a few seconds on the business outlook for the next quarter. We are expecting positive movement both in revenues and profitability. As you are aware, Q4 is seasonally a strong quarter for BFSI

collection. We also expect the Telecoms and Media ramps we have done particularly in the last quarter will start to result in revenues, so we should see positive movements on that. On the negative side, we had grant income in this quarter. We will not have an equivalent grant income in the next quarter, but overall, we expect to see positive movements both in revenue and profitability. So, with that, I will hand it back to the moderator and we will open it for questions.

Moderator:

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions at India location, please press *1, and participants connected to International Location, please press 01 on your telephone keypad. On pressing *1 and 01, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 and 01 now. First in line, we have a question from Mr. Srivathsan from Spark Capital. Over to you sir.

Mr. Srivathsan:

Yeah, hi Ananda. Just wanted to get some more confidence on, historically Q4 as you said, has been one of the strong quarters both in terms of revenues and margins, do you see enough visibility, on the ground, given that more than a month is over, close to a month is over now, for that kind of performance to repeat again?

Mr. Ananda Mukerji:

Yeah, I think I would not like to predict what the numbers would be, but I think we are expecting to see a positive movement, as I said, during my remarks. I mean, the only thing is that you know while part of the positive movement is going to come from the collections

seasonality as we all are aware, because of the economic environment and the extent of pain which is there in the system, it is little bit uncertain as to what extent is going to be the seasonality this time, but we do expect positive seasonality in any case, so don't really know how it is going to turn out, but we will wait and see.

Mr. Srivathsan:

Sure. Sir, my next question is we added close to 870 employees, but salary costs more or less remain same, is there any component of onsite salaries that is more like paid out weekly or because it got reduced due to the higher lower working days?

Mr. Ananda Mukerji:

I think the personnel cost remaining same is probably also a function of the rupee. There is a significant part of our headcount and personnel costs in dollar-denominated, so when you convert it into rupee, I think this is because of that, and that has probably had some bearing on that, but really there has been no change in the way we manage HR or the personnel.

Mr. Srivathsan:

Yeah, any thoughts on what could be, when you would look at wage hikes or anything of that nature, given the supply is, most players at least in the IT side, going out and giving hikes?

Mr. Ananda Mukerji:

Yeah, so our cycle is normally in April is when we look at pay hikes and that is one part of it, and the other part of it is typically we have lot of our employees in the lifecycle basis, in which case when they complete a year, then the hikes take place, so we will take a decision on wage hikes in the course of this quarter, but I think probably the outlook is that the market is starting to strengthen, and so therefore, I think we probably will

have little bit higher wage hikes than what we have had in the last year.

Mr. Srivathsan:

Okay, okay. I just wanted to get some sense more on the healthcare business. Just that the healthcare bill would be a medium term opportunity at this stage, but over the last two quarters or what you have seen, how has been the pipeline, how has been the booking, just wanted some color on that?

Mr. Ananda Mukerji:

Yeah, I think on the provider side, we continue to see fairly strong pipeline of business and contracts being signed. If I look at it, I think the annual contract value of contracts signed in this quarterly is about 34% higher than the annual contract value of contracts signed in Q3 of last year, so we have seen fairly strong positive growth on the provider side in terms of new business sign-up. On the payer sides, the market is still very soft. This is really because as Mike mentioned in his remarks that the unemployment is still continuing to result in lower claim volumes coming in so there is not that much demand for claims processing from the payer industry, which is what we primarily offer. So, but having said that, I think there are opportunities which are going to come as payers start to look at cost optimization. The healthcare bill and healthcare reform, if ultimately gets passed, and we do expect that in spite of the setbacks that has taken place in the bill in some form or the other, the health reforms will happen, should result in pressure on the payers to reduce their administrative expenses and that is where we expect to be able to get opportunities. I think probably the conversation has started happening now from the payer's side, which is we have not seen for quite some time, and we are starting to see some conversations now, but I think

payer's side will probably continue you to be soft for the immediate future.

Mr. Srivathsan: Okay, sure, I will come back later for followup. Thank you.

Mr. Ananda Mukerji: Okay.

Moderator: Thank you very much sir. Participants who wish to ask questions at India Bridge, may kindly press *1 on the telephone keypad. Participants connected to International Bridge, may press 01 on their telephone keypad. Next in line, we have a question from Mr. Ankit Shah from B&K Securities. Over to you sir.

Mr. Ankit Shah: Realization rate for the Dollar and the Pound for this quarter?

Mr. Ananda Mukerji: I am sorry.

Mr. Ankit Shah: Sir, average Dollar rate and the Pound rate for this quarter, US Dollar revenues to be specific.

Mr. Krishnan Akhileswaran
(Vice President – Finance): The average Dollar rate of 46.85 and Pound was 76.63.

Mr. Ankit Shah: 76.63?

Mr. Krishnan Akhileswaran: That is correct.

Mr. Ankit Shah: Okay sir. Sir, in terms of the net interest income sir. Can I get a breakup of the interest income and the interest expense for this quarter?

Mr. Ananda Mukerji: Can you repeat that, there is a lot of disturbance on the line, if you could pick up your handset and speak, it will be better.

Mr. Ankit Shah: Okay sir. Sir, I was asking, can I get a breakup of the interest income and the interest expense for this quarter?

Mr. Ananda Mukerji: Interest expense?

Mr. Ankit Shah: And income both.

Mr. Ananda Mukerji: Yeah.

Mr. Krishnan Akhileswaran: The net interest expense in this quarter Rs 5.7 Crores.

Mr. Ankit Shah: Right.

Mr. Krishnan Akhileswaran: Breakup of that, we will just come back to you in terms of rest of the breakup.

Mr. Ankit Shah: Okay, fine sir, and sir, in terms of the other operating income sir. It is, as you know, you jumped from the last quarter, so this was primarily due to the grant that we received from the North Ireland government?

Mr. Ananda Mukerji: You are talking about the other operating income, right?

Mr. Ankit Shah: Yes sir.

Mr. Ananda Mukerji: Yeah, that is right, that is where the grant reflects.

Mr. Ankit Shah: Okay, and sir, what kind of tax rate can we assume for the next quarter and for FY'11 going forward?

Mr. Dinesh Jain (Treasurer &

Chief Commercial Officer): I think for the next quarter the rate will be the same what we have for the 9 months and for the quarter. Next year, probably, it may be too early because there is direct tax code which is going to come into play in the budget time, which is going to impact overall every industry and no one is very clear about what is going to happen in that, so we don't want to comment as of today on that.

Moderator:

Mr. Ankit, are you done with your question? Sorry for the interruption. Mr. Ankit's line is disconnected from the line. Participants who wish to ask questions at India Location, may kindly press *1 on their telephone keypad. Participants connected to the International Bridge, may kindly press 01 on your telephone keypad. Next in line, we have a question from Mr. Madhu Babu from Systematix Shares. Over to you sir.

Mr. Madhu Babu:

Sir, there appears to be a lot of linearity between our revenue growth and headcount growth, what are the initiatives we are taking to move into the non-linear part in the BPO space?

Mr. Ananda Mukerji:

Well, I think the reality is that most of the businesses in this space is in some form of the other are going to be linear, and what we are seeing happening in the market is that there is movement towards different kinds of pricing models and where revenues are being linked to outcomes and output as opposed to input, I think we are seeing that increasing trend coming from the market, but I think in the foreseeable future, I think the business is going to be in some form of the other linear. I don't see we can say that the business is going to immediately move towards a non-linear form, and I would look at

most of the players in this industry, whether it is the IT industry or the BPO industry, growth does tend to be linked to the number of headcounts you have.

Mr. Madhu Babu: So, over the next two years down the line, if we assume a normal growth rate of say 10% to 15% on the topline, so would it be fair to assume that we will reach an employee strength of around 35,000 to 40,000?

Mr. Ananda Mukerji: I think it depends a little bit on the mix of where the employees are added, whether we add the employees in the US and UK, or we add the employees in India, Philippines, but yeah, broadly I would say that it will be somewhat linear to the headcount being added.

Mr. Madhu Babu: Okay sir, thank you.

Moderator: Thank you very much sir. Next in line, we have a question Ms. Archana from Span Capital. Over to you ma'am.

Mr. Sudhakar: Yeah, this is Sudhakar here. Going into FY'11, what kind of visibility do you see, can we expect 15% to 20% growth going into the next year and also your outlook on the margin please?

Mr. Ananda Mukerji: We are at this point assessing our fiscal 11, you know, targets, and we would probably be able to give you a better sense at the time of the April call. In terms of how much growth we are going to get, we are seeing positive growth in this year and that trend seems to be continuing. On the margin side, you know, as you would have seen, we have had pretty steady improvement in margins right from last year through this year, and we do expect that overall secular trend to continue.

Mr. Sudhakar: And any plans of raising funds to reduce your debt?

Mr. Ananda Mukerji: There is no immediate plan or decision we have made on raising capital.

Mr. Sudhakar: Okay, thank you.

Moderator: Thank you very much sir. I again repeat for questions, participants at International Bridge, may kindly press 01 on their telephone keypad. Participants connected to India Bridge may kindly press *1 on their telephone keypad. Next in line, we have a question from Mr. Krudant from Valley Quest. Over to you sir.

Mr. Krudant: Hello?

Mr. Ananda Mukerji: Yeah, go ahead.

Mr. Krudant: What is the present outstanding FCCB?

Mr. Carl Saldanha: 212 million dollars.

Mr. Krudant: And convertible at what price and when?

Mr. Carl Saldanha: It is convertible at 92 rupees of share price and it is convertible until December 2012.

Mr. Krudant: December 2012?

Mr. Carl Saldanha: Yeah.

Mr. Krudant: Okay, and sir, what would be our tax rate for FY'11?

Mr. Dinesh Jain: Next year, the 2011, we don't want to comment as of now, the reason being the direct tax code, which is going to change the complete tax regime in India itself, so we are waiting for budget to announce the revised direct tax code and then probably at the time of yearly account, we will be able to comment.

Mr. Krudant: Okay, and sir, regarding the FCCB, do we provide any interest rate?

Mr. Carl Saldanha: We follow AS30 and currently just charge the interest largely on to the reserves. We don't actually take into the P&L right now, except a small component on account of amortized cost of FCCB.

Mr. Krudant: Okay, thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have a question from Mr. Srivathsan from Spark Capital.

Mr. Srivathsan: Hi, sir, some of the debtors day have shot up pretty sharply from last year, is there any specific issue with any specific pockets of businesses that collections becoming an issue or it is just more like year-end phenomenon?

Mr. Ananda Mukerji: This is really a year-end phenomenon, so it has spiked at the end of the year, but in fact in subsequent couple of weeks, it has come down to where it was earlier. It is really an end-of-year phenomenon.

Mr. Srivathsan: Okay, and just, I do know that you are not looking at FY'11 guidance at this point in time, but in terms of what is visible to you now, which are of your four verticals you have, what would be the pecking order you would look at from growth point of view?

Mr. Ananda Mukerji: As I mentioned, I think we are seeing the strongest growth, and the strongest pipeline is still in Telecoms. We have strong customers and our customers are both growing in their businesses as Matt mentioned and also we are gaining from consolidation of vendors, which is taking place there, so that is a big driver for growth. As Mike mentioned, we are on the provider side of healthcare, we are seeing positive growth momentum there. On the BFSI side, the collections part of the BFSI business, we have good growth. We have seen more placements of debt and we have signed new customers in the course of the year, which we expect will give us positive growth across next year. The areas where we are still weak are really the healthcare payer side of the business is weak, and BFSI, backoffice customer service kind of work on the credit cards, the retail banking, the kind of work which we do, in that at this point it is weak momentum.

Mr. Srivathsan: Okay, just wanted to get your thoughts on the Asia Business Unit. Unless we add any big client, the growth would be kind of muted, is this a safe assumption to make?

Mr. Ananda Mukerji: I think our existing customers give us a certain momentum of growth, and I think that is something we expect will continue to happen as they get into new markets and new segments, as they add new services and so on. We are also definitely looking at other

sectors, and there is a lot of focus on the other industry segments in India, where we can get new customers from.

Mr. Srivathsan: Okay sure, thanks a lot.

Mr. Ananda Mukerji: Thank you.

Moderator: Thank you very much sir. Next in line, we have a question Mr. Atul Bhole from Tata Mutual Fund. Over to you sir.

Mr. Atul Bhole: Hello sir, I have a question in the number of seats. The seats have declined by 460 in this quarter, so is it because of any rationalization of seats and going forward how it will be?

Mr. Ananda Mukerji: Yes. It is because of rationalization of seats. We have shut down two centers in India and moved it to another center where we basically transited from one center to the other.

Mr. Atul Bhole: Okay.

Mr. Ananda Mukerji: Yes, 460 seats have been rationalized.

Mr. Atul Bhole: Okay, so those two centers were on lease or?

Mr. Ananda Mukerji: Yeah, all our centers are on lease.

Mr. Atul Bhole: So, have we incurred any one-time expenditure on closing down the centers or such thing?

Mr. Ananda Mukerji: It is something which has already been observed, I think, in the course of the last couple of quarters, so yes

when we do shut down, we do incur some rationalization expenses, but that has already been covered.

Mr. Atul Bhole: Okay. Can you disclose that amount, how large it was?

Mr. Ananda Mukerji: We have not disclosed it separately. It is movement within the same city, so it would not be very significant.

Mr. Atul Bhole: Okay.

Mr. Ananda Mukerji: But when we do move sometimes, we have had, for example, we are in the process of moving from Argentina to Philippines, and there the costs are quite significant, and we have taken some charges on that earlier in the year.

Mr. Atul Bhole: Okay, and sir, you mentioned about seasonality in Q4 from BFSI collections.

Mr. Ananda Mukerji: Yeah.

Mr. Atul Bhole: So, this year also you are expecting such seasonality in spite that unemployment is running at 10%?

Mr. Ananda Mukerji: Yes, we are expecting seasonality. We are expecting that there is going to be, because the seasonality really comes from tax refunds reaching the citizens and they use the tax refunds to pay down their debt, so I don't think that phenomenon will go away because of what is happening, but I think there is some, I would say, little bit of uncertainty in terms of what is the extent of that seasonality, I mean, the extent of seasonality we have seen in other years, are we going to see quite that seasonality or not, so we will really know only in February and March, that is when the impact comes.

Mr. Atul Bhole: Okay sir, thanks.

Mr. Ananda Mukerji: Okay, thank you.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Ankit Shah from B&K Securities. Over to you sir.

Mr. Ankit Shah: Sir, in terms of volume from India, you were saying that we have lower volumes for this quarter, especially from the Telecom vertical, so that in this quarter, there has been lot of new plans which have been introduced by the competitors, so then there should be an increase in the churn rates of customers moving to the new plans, so there should be an increase in volumes rather than decline in volumes.

Mr. Ananda Mukerji: Well, I think what happens in this industry is that there isn't probably a churn taking place, you have people who sign up with multiple service providers and essentially choose to use a card from whichever service providers they get the best deal from, so what happens is that the volumes are really linked to how many active customers are operating at that point in time, and also based on what new marketing campaign is happening, what new services are being offered. It is not really directly linked. The only factor is not the churn.

Mr. Ankit Shah: Okay, so then leaving that, there has been a lower number of customer additions to our clients in the telecom sector in India, and many number of customers are migrating to some new service providers.

Mr. Ananda Mukerji: Can you repeat that?

Mr. Ankit Shah: Sir, we are taking an assumption that the new customer additions are happening for some different service providers rather than our service providers.

Mr. Ananda Mukerji: No, no, I don't think we can say that. If you look at the numbers reported by all the service providers, they all seem to be adding customers at this point. I think it is a question of whether the addition of customers is resulting in actual usage of the service and business volumes taking place for us or not. I think they are reporting an addition in customers.

Mr. Ankit Shah: Sir, when are we looking at stable volumes from this vertical from India, that is from telecom vertical?

Mr. Ananda Mukerji: I think it is hard to say, I think at this point in time there is some amount of volatility in the market. As Chandra mentioned, there are lot of new players who have come in. There are new schemes being offered. Everybody is jockeying in a sense for position and for growth, so I think there is going to be a period of little bit of volatility before it settles down, and as Chandra mentioned, we expect that the bigger players will continue to flourish and the customers we work for are all big players and we expect they will continue to do so.

Mr. Ankit Shah: Okay sir, thanks a lot.

Mr. Ananda Mukerji: Thanks.

Moderator: Thank you very much sir. Participants connected to India Bridge, who wish to ask questions may kindly press *1. Participants connected to International Location, please press 01 to ask a question.

Mr. Krishnan Akhileswaran: Separately, Ankit, you had a question on the interest breakup. The breakup is interest expense for the quarter was 65 million rupees, the interest income is 8 million rupees, and hence the net interest charged for the quarter was 57 million rupees. So, that was the question that you had earlier. Thanks.

Moderator: Can we proceed sir?

Male Speaker: Yes.

Mr. Ananda Mukerji: Yes.

Moderator: I again repeat, participants connected to India Bridge, who wish to ask questions, may kindly press *1. Participants connected to International Bridge, who wish to ask questions may kindly press 01 on their telephone keypad. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Ananda Mukerji.

Mr. Ananda Mukerji: So, just want to thank everyone for joining this call with us. I think, as I have mentioned, we have had a fairly decent quarter in terms of both revenue topline and profits. The Q3 is always seasonally weak quarter, and we are happy that we have been able to navigate a difficult quarter fairly well. I think our business is looking good. We have positive growth momentum in different parts of our business, so overall I think our outlook is, we are positive about the way the business is looking at this point. 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. Have a nice day.
