

# Firstsource Solutions Limited

Q1 FY2011 Earnings Update





## **Disclaimer**

**Certain statements in this presentation concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in BPO services including those factors which may affect our cost advantage, wage increases, our ability to attract and retain highly skilled professional, time and cost overruns on client contracts, client concentration, our ability to manage ramp-ups and growth, our ability to manage our international operations, reduced demand in our key focus verticals, disruptions in telecom infrastructure and technology, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, performance of our subsidiaries, withdrawal of government fiscal incentives, political instability, legal restrictions on raising capital and acquiring companies outside India, unauthorized use of our intellectual property and general economic conditions affecting our industry. Firstsource may, from time to time, make additional written and oral forward-looking statements, including our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company.**

## Agenda

- Q1 FY2011 – Financial Performance
- Business Outlook



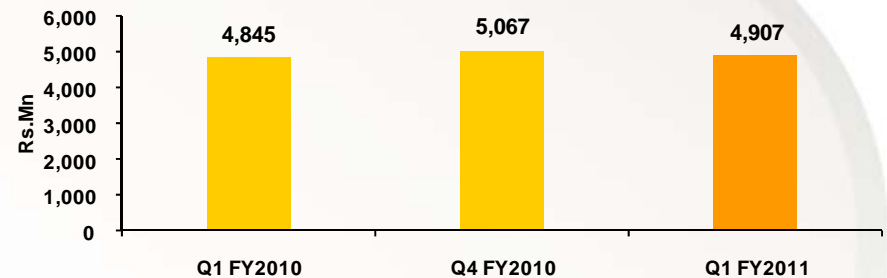


# Financial Performance – Q1 FY2011

(IN Rs. Million)	Q1 FY 2010	Q4 FY 2010	Q1 FY 2011
Income from services	4,807	5,008	4,759
Other operating Income	37	59	148
<b>Revenue from operations</b>	<b>4,845</b>	<b>5,067</b>	<b>4,907</b>
Personnel & Operating Expense	4,147	4,362	4,226
<b>Operating EBITDA</b>	<b>698</b>	<b>705</b>	<b>681</b>
<i>Operating EBITDA %</i>	<i>14.4%</i>	<i>13.9%</i>	<i>13.9%</i>
Depreciation / amortization	227	205	213
<b>Operating EBIT</b>	<b>471</b>	<b>501</b>	<b>468</b>
<i>Operating EBIT %</i>	<i>9.7%</i>	<i>9.9%</i>	<i>9.5%</i>
Other Income / (expense)	118	8	24
Interest Income / (expense), net	(46)	(66)	(57)
Amortized (cost ) on fair value of FCCB	(29)	(30)	(30)
Exchange gain/ (loss) on Foreign currency loan	(56)	(6)	3
Extraordinary (expenses)	(84)	-	-
Gain on FCCB Buy back	74	-	-
<b>PBT</b>	<b>448</b>	<b>407</b>	<b>407</b>
<i>PBT (% of total income)</i>	<i>9.0%</i>	<i>8.0%</i>	<i>8.2%</i>
Taxes and Minority Interest	68	51	86
<b>PAT</b>	<b>380</b>	<b>356</b>	<b>321</b>
<i>PAT (% of total income)</i>	<i>7.7%</i>	<i>7.0%</i>	<i>6.5%</i>
<b>Reported Basic EPS (INR)</b>	<b>0.89</b>	<b>0.83</b>	<b>0.75</b>
<b>Reported Diluted EPS (INR)</b>	<b>0.78</b>	<b>0.74</b>	<b>0.68</b>

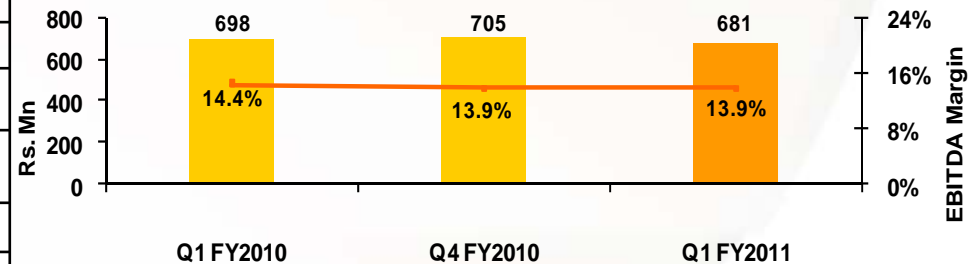
## Revenue from Operations

- Up 1.3% Y-o-Y
- Down 3.2% Q-o-Q



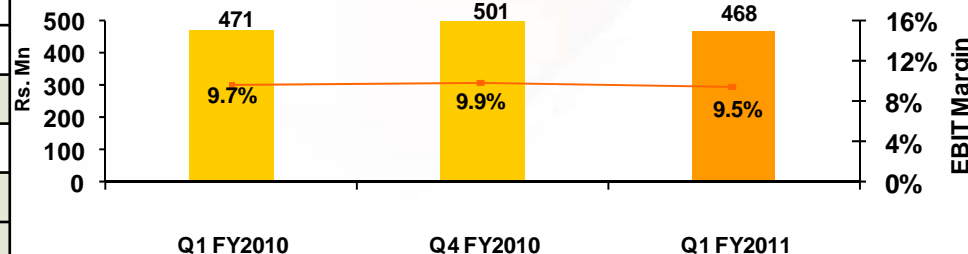
## Operating EBITDA

- Down 2.5% Y-o-Y
- Down 3.5% Q-o-Q



## Operating EBIT

- Down 0.7% Y-o-Y
- Down 6.6% Q-o-Q



## Q1 FY2011 Highlights (1/4)

### Q1 FY2011 Performance Analysis

- **Operating Revenue growth**

- Y-o-Y growth of 1.3% in Rs. terms and 6.6% in constant currency terms
- Q-o-Q decline of 3.2% in Rs. terms and 2.6% in constant currency terms

- **Good operating performance in a seasonally weak quarter**

- Held operating EBITDA margins at Q4 FY10 level (13.9%) in spite of BFSI collections seasonality fall-off and full quarter impact of ABU volume reduction
- Operational efficiencies and lower SG&A helped protect margins

- **Operating EBIT**

- Q1 FY11 operating EBIT margins lower by 40 bps compared to Q4 FY10, largely on account of :
  - Higher depreciation due to additional seats being commissioned

- **Strong cash generation**

- Cash and cash equivalents of \$59 million as on June 30, 2010, compared to \$50 million as on March 31, 2010

## Q1 FY2011 Highlights (2/4)

### Foreign Exchange Hedges

- **Outstanding FX hedges at \$28 million and £26 million for USD and GBP respectively**
  - FY11 - 85% USD coverage at Rs. 47 levels and 75% GBP coverage at Rs. 80 levels

### Employee Strength

- **24,697 employees as on June 30, 2010**
  - 18,726 employees based in India and 5,971 employees based outside of India
  - Net reduction of 163 employees in Q1 FY11 compared to net reduction of 2,448 employees in Q4 FY10 and net addition of 1,785 in Q1 FY10

### Attrition

- **Q1 FY11 annualized attrition (post 180 days)**
  - Offshore (India and Philippines) – 55.4% compared to 43.5% in Q4 FY10
  - Onshore (US and UK) – 39.7% compared to 34.5% in Q4FY10
  - Domestic – Attrition % for the quarter was 94.9%

## Q1 FY2011 Highlights (3/4)

### Seat Capacity and Utilization

- **Seat capacity of 20,544 seats worldwide**
  - 42 delivery centers as on June 30, 2010, same as on March 31, 2010
  - Seat fill factor at 75% as on June 30, 2010 compared to 80% as on March 31, 2010
    - Added ~550 seats in Bangalore, India (SEZ) and ~400 seats in Manila, Philippines
    - Average seat fill factor for Q1 FY11 at 76%

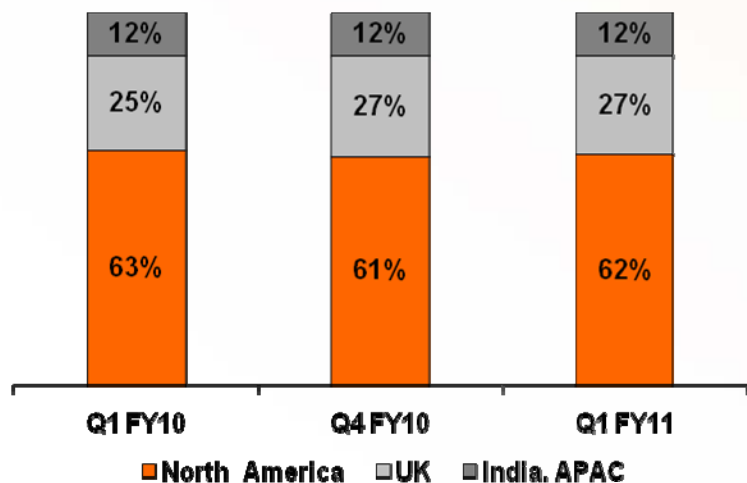
### Significant awards and recognition

- Ranked amongst the Top 50 'India's Best Companies to Work For' - 2010 list by Great Place to Work® Institute, India

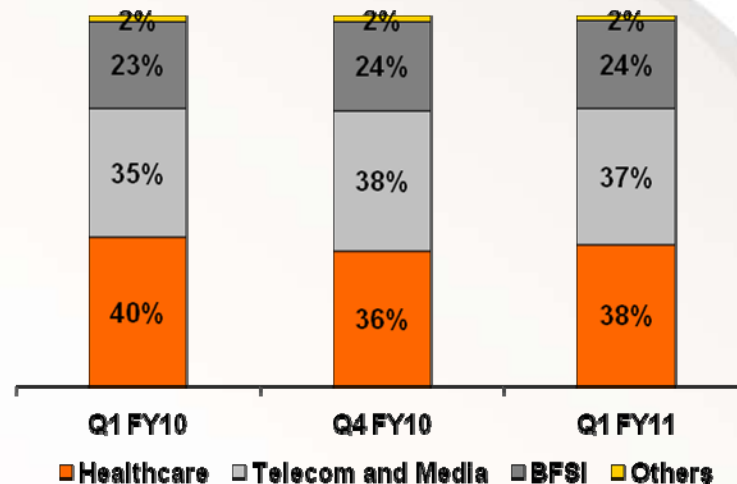


# Q1 FY2011 Highlights (4/4)

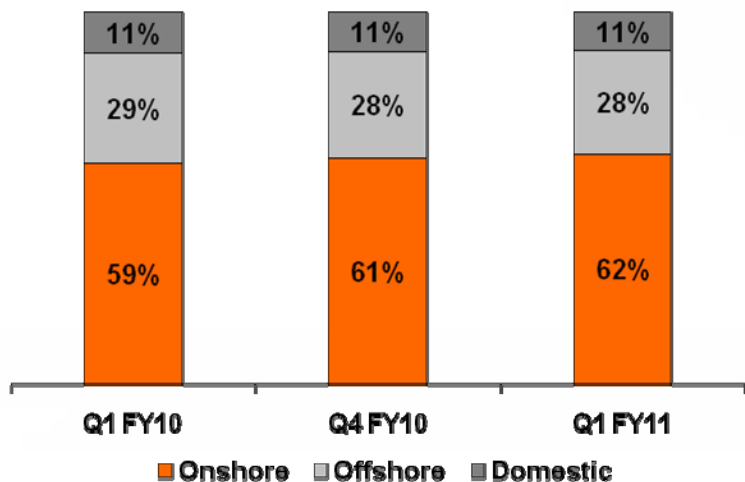
### By Geography



### By Verticals



### By Delivery Location



### Client Concentration





## Agenda

- Q1 FY2011 – Financial Performance
- Business Outlook





# Healthcare

## Headed by



President, Healthcare/  
CEO, North America  
Tom Watters

## Market Geography



## Key Segments



Payer



Provider

## Revenue Contribution

38%

of income from services (Q1 FY11)

## Employees

2,862

as on June 30, 2010

## Capacity and Utilization

3,398 seats

as on June 30, 2010

76%

Seat fill factor

## Delivery Geography



## Industry trends

- **The healthcare industry continues to work to understand and clarify key provisions of reform mandates**
  - Payer segment acting as “first responders” to healthcare reform mandates and look toward outsourcing as a solution in reducing administrative costs
  - Provider segment preparing for the effects of anticipated reductions in reimbursement, as well as reacting to current, post-recession market conditions
- **U.S. unemployment rate decreased slightly to 9.5% with demand remaining high for onshore services**
- **Reform mandates will likely drive increased industry consolidation as margin pressures increase**

## Business outlook

- **Payer demand strong for combined call center and claims services as insurers respond to mandated medical loss ratios that will go into effect in January, 2011**
- **Sustaining interest in onshore service delivery as U.S. unemployment persists**
- **Provider segment remains favorable as hospitals work to improve operations in preparation for decreased payments and reform mandates that will significantly impact the U.S. healthcare delivery model**
- **Favorable outlook with positive sustained growth and solid operating performance**



# Telecommunications & Media

## Headed by



EVP – T&M  
Santanu Nandi

## Market Geography



## Key Segments

	
<b>Cable &amp; Satellite Television</b>	<b>Wireless and Mobile</b>
	
<b>Broadband / Narrowband</b>	<b>Fixed line</b>

## Revenue Contribution

**26%**

income from services (Q1 FY11)

## Employees

**6,969**

as on June 30, 2010

## Capacity and Utilization

**4,694 Seats**

as on June 30, 2010

**78%**

Seat fill factor

## Delivery Geography



## Industry trends

- With US & UK coming out of recession, carriers are beginning to see growth in revenues & ARPU
- Churn reduction being seen due to increased demand for bundled offerings
- Some key clients & prospects setting more aggressive growth and cost-cutting targets
- UK broadband market getting more competitive with Sky's standalone broadband product and O2 home broadband
- Consolidation continues in the market – T-Mobile Orange merger in UK; CenturyLink Qwest merger in US
- IPTV gathering momentum in UK – BBC approval of Project Canvas, Ofcom Sky wholesale ruling & increased broadband speeds creates opportunity for BT & TalkTalk to replicate FiOS and U-Verse success in UK

## Business outlook

- Pipeline beginning to look better in terms of new clients in North America through concerted sales & marketing efforts
- Growth opportunities in sales & customer service through new channels like web chat across multiple clients
- Aggressive client revenue growth & cost-cutting initiatives creating increased opportunities for right-shore solution
- As we serve 3 of the leading UK broadband providers, we see growth opportunities in this market segment
- We expect to gain from this consolidation trend
- Our strong Pay-TV experience positions us well for IPTV growth in UK, when it happens



# BFSI

## Headed by



EVP - BFSI  
Sanjeev Sinha

## Market Geography



## Key Segments



Credit Cards



Retail Banking



Mortgage



General and Life Insurance

## Revenue Contribution

24%

income from services (Q1 FY11)

## Employees

3,568

as on June 30, 2010

## Capacity and Utilization

3,604 Seats

as on June 30, 2010

78%

Seat fill factor

## Delivery Geography



## Industry trends

- Increased interest in outsourcing as economy improves and companies try to maintain margins
- Big 5 UK retail banks settled on strategic direction. Government owned banks such as Lloyds are on their way to recovery
- As cards industry contracts in our key markets, card issuers are looking at margin expansion/ cost reduction through outsourcing, especially lift-outs
- In UK also, the cards industry is contracting, card issuers are arbitrarily reducing consumer credit limits. Cautious approach to lending continues
- Consumer borrowing has dropped in 15 of the last 16 months in US
- Credit Card borrowing has also dropped for 20 straight months

## Business outlook

- Banks starting to explore opportunities to generate a better cost to income ratio. Levers include industrialisation, consolidation, automation and outsourcing
- Selection as preferred supplier (subject to contract) by Barclaycard for an outsourcing deal, good indicator of increased activity levels and validation of 'global markets – global delivery' model
- Beginning to see opportunities emerge with banking client as they finalize restructuring plans
- Liquidation rates are starting to improve, however volumes are tightening
- Consolidation of client mortgage systems offer opportunities, as well as pose risk

# Asia Business Unit (ABU)

## Headed by



EVP, Asia BU  
Chandra Iyer

## Market Geography



## Key Segments



**Telecom  
& Media**

**BFSI**

## Revenue Contribution

**10%**

income from services  
(Q1 FY11)

## Employees

**10,746**

as on June 30,  
2010

## Capacity and Utilization

**8,261  
Seats**

as on June 30,  
2010

**71%**

Seat fill factor

## Delivery Geography



## Industry trends

- Conclusion of 3G licenses and spectrum auction - Impact on the telecom companies, leading to cost pressures
- MCommerce emerging as key service expansion initiative by Indian telecom and banks
- Reduction in volumes seen, in spite of increase in subscriber base
- Large players, both IT and pure play BPOs, increase focus on Domestic market

## Business outlook

- New deal in Banking sector will fuel growth in BFSI
- Large scale / Big ticket opportunities in Insurance
- Newer opportunities continue to be seen in existing customers, despite base business contraction in telecom
- Currently cash positive and expect to be EBIT positive by end of this fiscal year

## **FY2011 Business Outlook**

- **On track to achieve similar to slightly higher constant currency revenue growth and improvement in operating margins**
  - Q1 FY11 performance has been encouraging
- **Expect growth to be back ended with strong revenue ramp up during H2 FY2011 across all Business Units**
- **Moving into Q2 FY11**
  - Expect stable revenues and improvement in margins

## THANK YOU

Firstsource (NSE: FSL, BSE: 532809, Reuters: FISO.BO, Bloomberg: FSOL@IN) is a global provider of customised BPO (business process outsourcing) services to the Banking & Financial Services, Telecom & Media and Healthcare sectors. Its clients include FTSE 100, Fortune 500 and Nifty 50 companies. Firstsource has a “rightshore” delivery model with operations in India, US, UK and Philippines. ([www.firstsource.com](http://www.firstsource.com))

