

Firstsource Solutions Limited

Q2 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

- Q2 FY2011 – Financial Performance
- Business Outlook



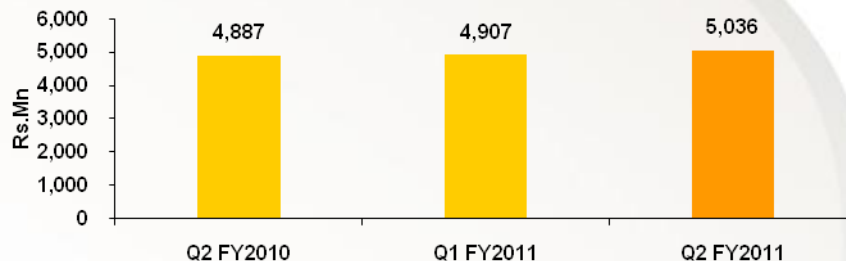


Financial Performance – Q2 FY2011

(IN Rs. Million)	Q2 FY 2010	Q1 FY 2011	Q2 FY 2011
Income from services	4,884	4,759	4,900
Other operating Income	3	148	136
Revenue from operations	4,887	4,907	5,036
Personnel & Operating Expense	4,171	4,226	4,330
Operating EBITDA	716	681	705
<i>Operating EBITDA %</i>	<i>14.7%</i>	<i>13.9%</i>	<i>14.0%</i>
Depreciation / amortization	226	213	213
Operating EBIT	490	468	492
<i>Operating EBIT %</i>	<i>10.0%</i>	<i>9.5%</i>	<i>9.8%</i>
Other Income / (expense)	(12)	24	9
Interest Income / (expense), net	(57)	(57)	(53)
Amortized (cost) on fair value of FCCB	(28)	(30)	(31)
Exchange gain/ (loss) on Foreign currency loan	(43)	3	(1)
Extraordinary (expenses)	-	-	-
Gain on FCCB Buy back	-	-	-
PBT	350	407	415
<i>PBT (% of total income)</i>	<i>7.2%</i>	<i>8.2%</i>	<i>8.2%</i>
Taxes and Minority Interest	59	86	83
PAT	291	321	332
<i>PAT (% of total income)</i>	<i>6.0%</i>	<i>6.5%</i>	<i>6.6%</i>
Reported Basic EPS (INR)	0.68	0.75	0.77
Reported Diluted EPS (INR)	0.61	0.68	0.70

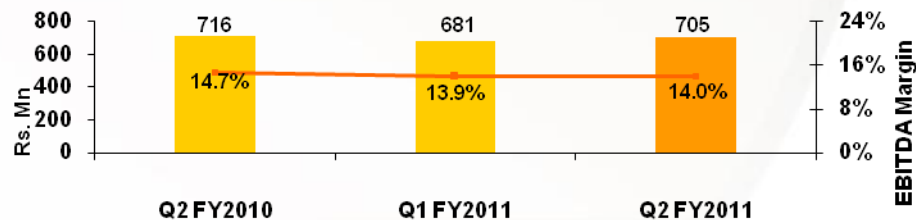
Revenue from Operations

- Up 3.0% Y-o-Y
- Up 2.6% Q-o-Q



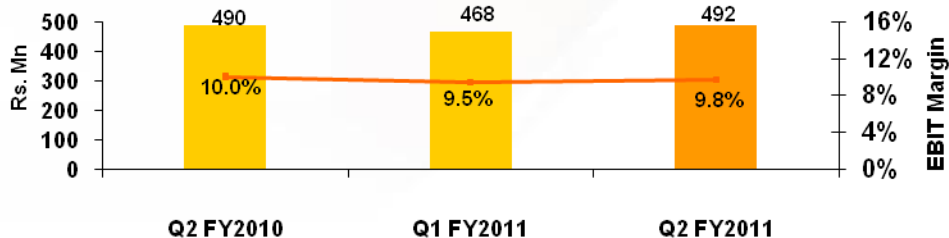
Operating EBITDA

- Down 1.6% Y-o-Y
- Up 3.6% Q-o-Q



Operating EBIT

- Up 0.4% Y-o-Y
- Up 5.2% Q-o-Q



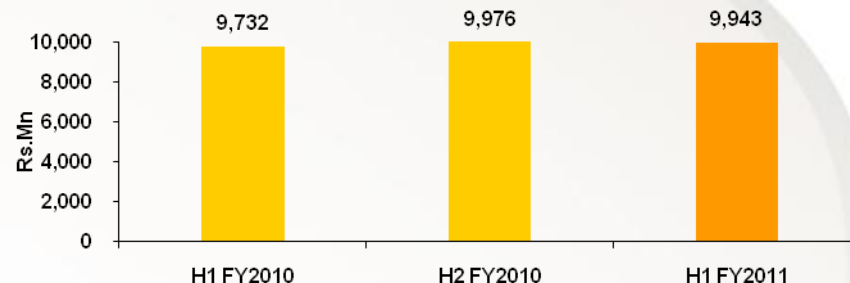


Financial Performance – H1 FY2011

(IN Rs. Million)	H1 FY 2010	H2 FY 2010	H1 FY 2011
Income from services	9,691	9,848	9,659
Other operating Income	41	128	284
Revenue from operations	9,732	9,976	9,943
Personnel & Operating Expense	8,317	8,585	8,557
Operating EBITDA	1,415	1,391	1,386
<i>Operating EBITDA %</i>	<i>14.5%</i>	<i>13.9%</i>	<i>13.9%</i>
Depreciation / amortization	453	419	426
Operating EBIT	961	971	960
<i>Operating EBIT %</i>	<i>9.9%</i>	<i>9.7%</i>	<i>9.7%</i>
Other Income / (expense)	106	31	32
Interest Income / (expense), net	(103)	(126)	(110)
Amortized (cost) on fair value of FCCB	(57)	(58)	(62)
Exchange gain/ (loss) on Foreign currency loan	(98)	(13)	2
Extraordinary (expenses)	(84)	-	-
Gain on FCCB Buy back	74	-	-
PBT	798	805	822
<i>PBT (% of total income)</i>	<i>8.2%</i>	<i>8.1%</i>	<i>8.3%</i>
Taxes and Minority Interest	127	115	169
PAT	671	689	653
<i>PAT (% of total income)</i>	<i>6.9%</i>	<i>6.9%</i>	<i>6.6%</i>
Reported Basic EPS (INR)	1.57	1.61	1.52
Reported Diluted EPS (INR)	1.40	1.44	1.37

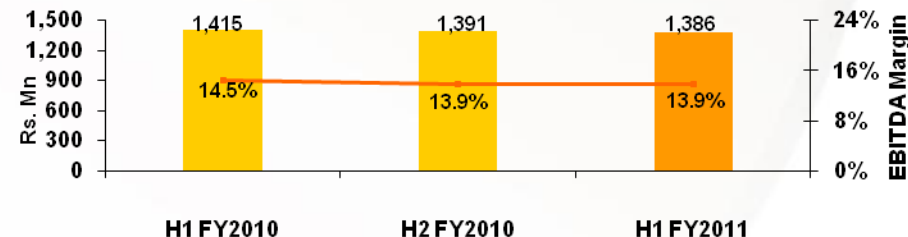
Revenue from Operations

- Up 2.2% Y-o-Y
- Down 0.3% H-o-H



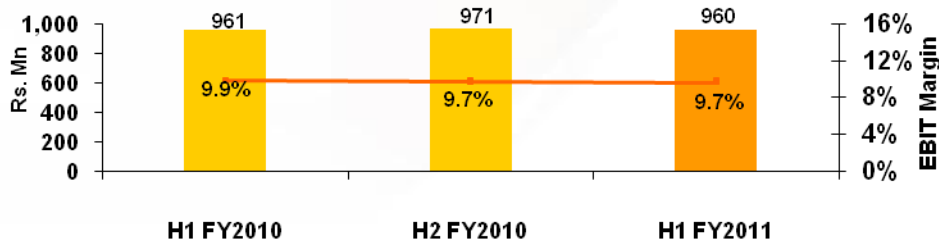
Operating EBITDA

- Down 2.0% Y-o-Y
- Down 0.4% H-o-H



Operating EBIT

- Down 0.1% Y-o-Y
- Down 1.1% H-o-H





Q2 FY2011 Highlights (1/4)

Q2 FY2011 Performance Analysis

- **Operating Revenue growth**
 - Y-o-Y growth of 3.0% in Rs. terms and 6.0% in constant currency terms
 - Q-o-Q growth of 2.6% in Rs. terms and flat in constant currency terms
- **Operating EBIT**
 - Q2 FY11 operating EBIT margins higher by 30 bps compared to Q1 FY11, largely on account of
 - Improvement in ABU margins
 - Lower depreciation
- **Continue to generate cash, Q2 closing cash position impacted by one-off timing issues**
 - Delays in invoicing and somewhat elongated receivable cycle with select clients
 - These issues have subsequently been resolved
 - Excluding working capital movement, free cash generation (net of tax, interest and capex) would have been approx. \$8 million for the quarter



Q2 FY2011 Highlights (2/4)

Closed Two Landmark Banking Deals

- **Barclaycard, UK** selected Firstsource as a strategic partner to manage its credit card and payment businesses in the UK.
 - This five year outsourcing agreement commences November 1, 2010.
- **Axis Bank, India** awarded Firstsource a five year outsourcing agreement for offering customer contact services (voice, email & web chat) to its retail customers

Employee Strength

- **24,909 employees as on September 30, 2010**
 - 19,014 employees based in India and 5,895 employees based outside of India
 - Net addition of 212 employees in Q2 FY11 compared to net reduction of 163 employees in Q4 FY10 and net addition of 3,077 in Q2 FY10

Attrition

- **Q2 FY11 annualized attrition (post 180 days)**
 - Offshore (India and Philippines) – 50.1% compared to 55.4% in Q1 FY11
 - Onshore (US and UK) – 48.4% compared to 39.7 % in Q1 FY11
 - Domestic – 94.2% compared to 94.9% in Q1 FY11

Q2 FY2011 Highlights (3/4)

Seat Capacity and Utilization

- **Seat capacity of 20,875 seats worldwide**
 - 42 delivery centers as on September 30, 2010, same as on June 30, 2010
 - Seat fill factor at 75% as on September 30, 2010, same as on June 30, 2010
 - Added 331 seats during the quarter
 - Average seat fill factor for Q2 FY11 unchanged at 75%

Foreign Exchange Hedges

- **Outstanding FX hedges at \$31 million and £35 million for USD and GBP respectively**
 - **H2 FY11:** ~100% USD coverage at Rs. 47 levels and ~85% GBP coverage at Rs. 78 levels
 - **H1 FY12:** ~40% USD coverage at Rs. 48+ levels and ~65% GBP coverage at Rs. 75+ levels

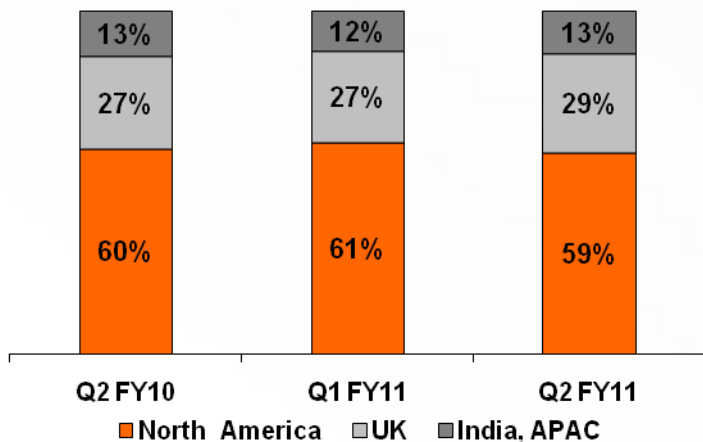
Divestment of Pipal

- **The company has entered in to an agreement to sell its 51% ownership in Pipal to CRISIL**
 - Deal to be completed in Q3 FY2011

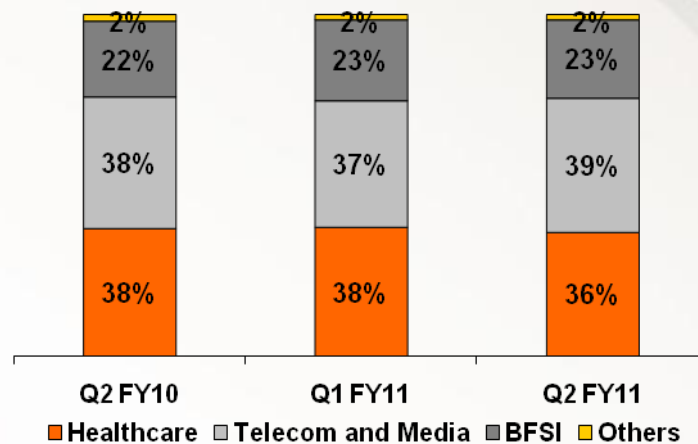


Q2 FY2011 Highlights (4/4)

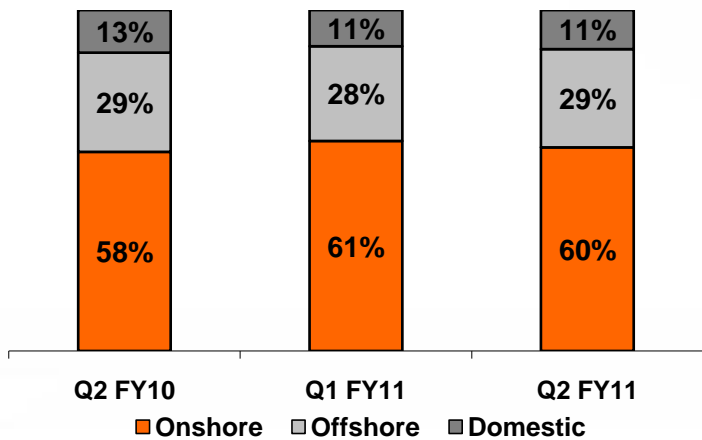
By Geography



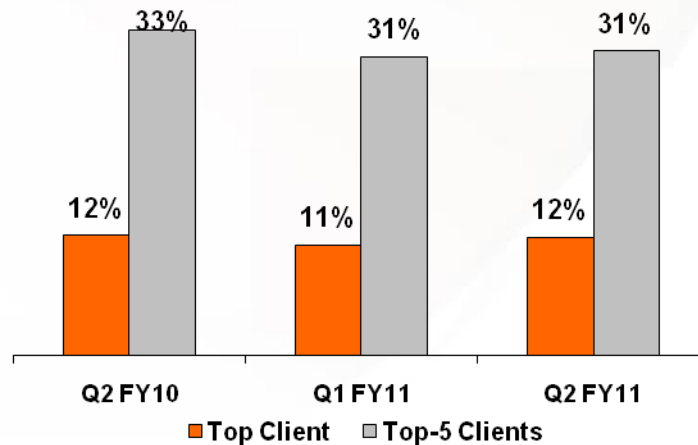
By Verticals



By Delivery Location



Client Concentration



Agenda

- Q2 FY2011 – Financial Performance
- Business Outlook





Healthcare

Headed by



President, Healthcare/
CEO, North America
Tom Watters

Market Geography



Key Segments



Payer



Provider

Revenue Contribution

37%

of income from services (Q2 FY11)

Employees

2,833

as on Sep 30, 2010

Capacity and Utilization

3,099 seats

as on Sep 30, 2010

74%

Seat fill factor

Delivery Geography



Industry trends

- **September marked six months since passage of the Patient Protection and Affordable Care Act (PPACA) with enactment of several key provisions, including:**
 - Elimination of co-payments for preventative care such as immunizations
 - Prohibitions on an insurer's ability to rescind coverage or place limits on lifetime coverage
- **U.S. unemployment is sustaining at 9.6% reinforcing the outlook for a slow, protracted economic recovery**
- **Providers continue to work to restore their financial position to pre-recession levels**
- **Payers, many of whom are performing at record reserve levels, work to comply with reform mandates while defending requests for premium increases**

Business outlook

- **Protectionist sentiment is exacerbated by upcoming mid-term elections and sustaining high unemployment continue to drive requirement for increased onshore delivery**
- **Payers will continue to seek outsourcing solutions as they come under increased Federal scrutiny related to medical loss ratios and premium transparency**
- **Federal approval for additional Medicaid funding will favorably impact eligibility services as increased enrollment needs result**
- **Providers looking to accelerate cash flow while facing cuts in reimbursement will increasingly look toward solutions such as receivables management services**
- **Favorable outlook with moderate growth and sustained financial performance**



Telecommunications & Media

Headed by



EVP – T&M
Santanu Nandi

Market Geography



Key Segments

 Cable & Satellite Television	 Wireless and Mobile
 Broadband / Narrowband	 Fixed line

Revenue Contribution

27%

income from
services
(Q2 FY11)

Employees

7,394

as on Sep
30, 2010

Capacity and Utilization

4,989
Seats

as on Sep
30, 2010

78%

Seat fill factor

Delivery Geography



Industry trends

- Much anticipated vendor consolidation is slower than expected
- Next wave of outsourcing by UK telecom operators – pure-play BPO companies firmly in the reckoning
- Increased competition in UK pay-monthly market, especially at the lower end
- Ofcom ruling - BT has to open up high-speed fibre-optic broadband network to other ISP players
- HD becoming more mainstream, 3D TV is the next emerging market segment
- iPhone availability beyond AT&T in USA expected to drive growth (Verizon Wireless Q1 CY11)

Business outlook

- Slowdown in business as a result of delay in consolidation with some of our key clients.
- Participating in some large bids with telecom operators in UK & Ireland as a pure-play BPO with critical mass
- Activity in lower-end pay-monthly market create greater need for our right-shore offering
- UK fibre-optic broadband roll-out creates growth opportunities for clients in broadband and potentially TV
- As TV products get more complex (3D), greater need for service
- Pipeline continues to gain traction both in North America and UK across both existing and prospective clients



BFSI

Headed by



EVP - BFSI
Sanjeev Sinha

Market Geography



Key Segments



Credit Cards



Retail Banking



Mortgage



General and Life Insurance

Revenue Contribution

23%

income from services (Q2 FY11)

Employees

3,626

as on Sep 30, 2010

Capacity and Utilization

3,750 Seats

as on Sep 30, 2010

80%

Seat fill factor

Delivery Geography



Industry trends

- Continue to see increased interest in outsourcing across UK and USA, beginning to see interest in Australia
- Change of guard at 3 of the Big 5 UK banks – change could well be on the way
- While credit card industry contracts, pre-paid card market is rapidly expanding
- The mortgage sector continues to suffer. Stable recovery not yet in sight.
- After a weak 2009, the US Retail banking sector will continue to be impacted by several significant business issues during 2010
 - Increased government regulation
 - Sluggish GDP growth
 - Continued impact of fiscal stimulus packages

Business outlook

- Signed a 5 year outsource contract with Barclaycard UK
- Banks are actively considering outsourcing as an option for increasing efficiencies. Lift-out opportunities are also present.
- Rolling out our pre-paid service offering to broader market beyond existing clients, initial interest encouraging
- In Collections, liquidation rates have moved up 10% y-o-y, even though volumes are contracting and net cash is forecasted to decrease.
- Increased pressure on commission rates
- India delivery becoming more popular among our US clients



Asia Business Unit (ABU)

Headed by

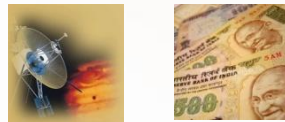


EVP, Asia BU
Chandra Iyer

Market Geography



Key Segments



Telecom & Media **BFSI**

Revenue Contribution

11%

income from services
(Q2 FY11)

Employees

10,491

as on Sep 30, 2010

Capacity and Utilization

8,449
Seats

as on Sep 30, 2010

73%

Seat fill factor

Delivery Geography



Industry trends

- Major BPO players making significant investments into Middle East and Africa
- Rural BPOs assuming increasing importance
- Large players increase focus on Domestic market
- Telecom sector – steady growth expected to continue but Average Revenue per User (ARPU) are declining
- Severe tariff war in the GSM space expected to stabilize—total of 12 players in GSM space now from just 5-6 in recent past, competing for market share

Business outlook

- Beach head established in Axis will help propel traction in the BFSI segment
- Newer opportunities continue to be seen in existing customers
- There will be enhanced opportunities in telecom sector in the areas of MNP (Mobile Number Portability) and Customer verification
- On track to be EBIT positive in Q4, through increased operational efficiencies



H2 FY2011 Business Outlook

- **Overall, H2 FY11 will see growth in revenues and improved margins**
 - Magnitude to be impacted due to expected ramps in telecom sector having got deferred
- **Q3 FY11**
 - In spite of Q3 being a seasonally weaker quarter, expect to see modest sequential constant currency revenue growth on the back of
 - Barclaycard UK revenues beginning November 1, 2010
 - Ramps in Healthcare provider
 - Expect some pressures on operating margin
 - Largely driven by seasonal factors and ramp ups leading to cost of growth
- **Q4 FY11**
 - Expect strong performance both on revenues and profitability driven by
 - Positive seasonal factors in BFSI Collections
 - Continued ramps in Healthcare provider and other parts of BFSI
 - Break even in Asia Business Unit

THANK YOU

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