



Q4 FY2013 Earnings Call Transcript – May 08, 2013

CORPORATE PARTICIPANTS:

- Mr. Rajesh Subramaniam – Managing Director and Chief Executive Officer
- Mr. Dinesh Jain – Chief Financial Officer
- Yash Gadodia – Christensen Investor Relations

Firstsource Solutions Limited
Quarter Four Earnings Conference Call, Q4 FY13
May 08, 2013

Moderator

Ladies and gentlemen good day and welcome to the Firstsource Solutions Limited fourth quarter and fiscal year ended March 31, 2013 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yash Gadodia from Christensen Investor Relations. Thank you and over to you sir.

Yash Gadodia

Welcome everyone and thank you for joining us for the Q4 and full year ended March 31, 2013 Earnings call of Firstsource. Please note the results, fact sheet and presentation have been mailed to you and you can also view this on our website www.firstsource.com. To take us through the results and to answer your questions today, we have with us Mr. Rajesh Subramaniam – Managing Director and CEO; and Mr. Dinesh Jain – CFO. We will be starting this call with a brief presentation providing an overview of the company's performance followed by the Q&A session.

I would like to remind you that everything said on this call today that reflects any outlook of the future or which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks we face. These uncertainties and risks are included, but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent annual report. With that said, I would now turn the call over to Mr. Rajesh Subramaniam. Thank you and over to you sir.

Rajesh Subramaniam

I will take you through the presentation and then we will jump into the Q&A. So, under Fiscal 13 financial performance highlights, operating revenue came in at Rs. 2818.5 crores when compared to Rs. 2255.0 crores in FY12. The year-on-year growth in rupee terms was 25% and 15% in constant currency terms. This is the year where we realigned our structure which had a material impact on our margins, compared to last year. So our FY13 operating EBIT came in at Rs. 191.2 crores as compared to Rs. 95.8 crores in FY12 demonstrating a year-on-year growth of 99.5% and an year-on-year margin expansion of 260 basis points. The profit after tax for FY13 was Rs. 146.6 crores as compared to Rs. 62 crores in FY12 demonstrating a year-on-year growth of 136.3%. From the other highlights of FY13, I will quickly go through the slide. All of you know we have a new promoter in our business; RP-Sanjiv Goenka Group took majority control in

the company through a combination of the preferential allotment, which enabled us in part funding our FCCB obligations. A secondary purchase from three earlier primary shareholders and the open offer has enabled them to get to an ownership of 56.86%. Combining the cash we raised from the Sanjiv Goenka Group and our internal cash resources available, augmented by an ECB, we managed to repay our FCCB obligation of \$237 million in full and that was on the due date December 4, 2012. The other highlight which we talked about were the year-on-year margin expansions of 260 basis , which as I mentioned was largely driven by the structural realignment of the business and in several other cost rationalization initiatives that we embarked upon. So a good thing for us last year has been, the client relationships have significantly strengthened. Our top customers in the media space, in the telecom space, in the banking space and in the payer space, our relationships have significantly deepened. We are selling more into our customers. We are selling value added services into our customers while I will touch upon some of them as we talk through the presentation. As you know in our business, 90% of our revenues for an ensuing year comes from our existing customers. We have had very deep relationships that set us well. We have added new logos in Q4 in the UK and Ireland market especially in financial services space. This is on the back of productizing some of our domain capability in specific niches that we do for other large high street bank in the UK. So I think, overall the momentum on the pipeline of business is positive both from our existing customers and potential new customers, which I am confident set us up well in later part of 2014 and beyond. Apart from that, we have made significant interventions in the healthcare provider business. We have got significant investments in augmenting the management team there. We have a new CEO, David Strickler. We have a new CFO with a strong operational background. We have a new Head of HR and a process excellence head. This team is suitably assisted by the other line functions and the sales and CRM teams and will set us up well as we take a look at how we deepen our relationships with the 750 to 800 hospitals that we have in the provider space. Some of the things that we are doing at the provider space also which will be a top of the mind question for all of you is on our revenue being flat between two quarters. But over the last 6 months we have taken a very focused approach on taking a look at some of the customers that are not making us money, some of the customers whose SLA engagements been detrimental from a profit and working capital interest perspective, some of them are in the provider business where some of the hospitals that we work for are generating revenues almost equivalent to the cost of servicing them without leaving any scope for margin. Some of them are in our domestic business, so we have taken a conscious effort as to how we can bring the stock of business to profitable growth and that is going to be our focus for next year as we exercise to turn around accounts which are suboptimal, which we decide that we will move away from such accounts. We have developed some

niche capabilities through our productization initiatives. We have long tenured relationships with the large customers. We understand the customers better. We understand the chatter that their customers undertake in forums beyond the control of our customers. So we have now developed capabilities to pull and make sense of some of those elements through the database and the repository of information we have with our multiple interactions. What started as a tactical exercise 12 to 18 months back, has gathered significant momentum with an ultimate objective as to how you serve to customers more efficiently and at a lower costs. So I will be happy to talk to any of you because it is a pretty long conversation, I can articulate the initiatives we have done this separately. Apart from that, we were the "Outsourcer of the Year." We won that award by the NOA, which again speaks well of what our clients rate us. So having said that now, I will slip into the section which talks about our highlights for Q4.

Q4 revenues came in at Rs. 712.5 crores compared to Rs. 621.8 in Q4 of last year. Year-on-year growth of 14.6% in rupee terms and 5.7% in constant currency terms. The quarter-on-quarter was flat both in INR and constant currency terms. I have explained to you why this is being despite the fact that the collections business has the best seasonality in Q4 and obviously the impact is much better than what it is in Q3, but it is just a disciplined way of growing and that is the reason why the revenues have come in flat. The operating EBIT came in at Rs. 61.3 crores compared to Rs. 31.0 crores in Q4, year on year growth of almost 97.7% and a margin expansion of 360 basis points. Quarter-on-quarter margin expansion was 140 basis points which is dependent of the discipline growth that I spoke about, so lot of factors contributing, from what we have done with accounts which were suboptimal or loss making in the company. Profit after tax came in at 40.2 crores compared to 23.1 crores in Q4 of last year. Year-on-year growth was 74.2% and there is small reduction in quarter on quarter largely because Q4 was the full quarter where we have paid for interest on our loan obligations. Interest costs are Rs. 19.8 crores compared to Rs. 4.4 crores in Q3. Until November 30th, we were earning interest on the money we raised in the US, which we brought into India to repay our debt. So that carry disappears and the full interest cost reflects. What is heartening is the level of cash flow that we are generating, will be sufficient for us to repay our debt obligations. We will amortize \$11.25 million every quarter commencing in July and we will be repaying them with our internal cash flows and servicing the interest appropriately.

The cash equivalence of Rs. 93 crores as on March 31st would have been significantly higher, but we had deal related expenses in Q3 plus a couple of customers paid us about Rs. 30 crores in the first week of April compared to March 31st otherwise the numbers would have been definitely much higher. Employee strength was 31,872 out of which 20,987 are based in India and 10,885

are based outside of India. Attrition offshore has come down by almost 10 percentage points. Two reasons for it, one is the supply market has been benign and helpful in Q4 largely aided by the fact that people have finished their exams and it is easier to hire people. Normally Q1 attrition rates are higher than Q4. Plus we made some specific intervention in driving a different level of incentive linked to performance management and productivity, which is helping us in retaining people that we want to retain who have the maximum productivity and an impact on the business from a tenure perspective.

The other highlight includes the seat capacity of 24,053 seats worldwide, 47 delivery centers, same as in December. The seat fill factor of 82% compared to 81% last quarter. FX hedges, outstanding at about \$22 million, 26 million Pounds, and 9 million Australian dollars, overall 82% covered with USD rates at 56 levels and Pound rates at 88 levels and Australian Dollar at about 55 level. From a revenue composition perspective, telecom and the media continue to be the largest contributor for us. It was 45% of our revenues, healthcare both provider and payer were 31% and financial services and insurance 22%. From a client concentration perspective, top client was 18%; top 5 clients were 45% in Q4 largely stable between Q3 and Q4 of the current fiscal. Obviously from last year Q4, our top client has grown by 5% which again signifies the strength and relationship as to how the client has almost doubled between FY12 and FY13. From a delivery perspective, onshore contributes 68% of our revenues, offshore international work that we do out of India and Philippines 20% and the domestic work was about 12%. Having said that, I will now hand it over to Dinesh Jain, our CFO, to cover the sections on the numbers.

Dinesh Jain

I will take you through the financial performance for year 2013 when compared to 2012 first. Our revenue is Rs. 2818.5 crores in compared to Rs. 2255.0 crores for 2012, year on year growth is 25%. Operating EBITDA was at Rs. 279.6 crores against Rs. 185.1 crores in FY12, which is 51% year-on-year and in the percentage terms it was 9.9% to the revenue in comparison to 8.2% for the last year. Operating EBIT came at Rs. 191.2 crores against Rs. 95.8 crores which again shows a healthy growth of 99.5% year on year and in the percentage terms also we closed at 6.8% compared to 4.2% in FY12. Profit after tax has grown to Rs. 146.6 crores from Rs. 62.0 crores for FY12, which is year on growth of 136.3% and in percentage term we closed at 5.2% compared to 2.7% for FY12. On a quarter-on-quarter and year-on-year quarterly performance for Q4 FY13, revenue is at Rs. 712.5 crores in compare to Rs. 621.8 crores year ago, which is almost 14.6% growth on year on year and in the last quarter is almost flat at Rs. 713.2 crores. Operating EBITDA at Rs. 83.0 crores compared to Rs. 52.8 crores for the last year same period and EBITDA margin was at 11.7% in compared to 8.5% in Q4FY12 which shows a year-on-year growth 57.2% while on the quarter-

on-quarter growth is 14.1%. On an operating EBIT, again the margin expansion continues and we closed at Rs. 61.3 crores for Q4FY13 compared to Rs. 31.0 crores for the last year same quarter which is 97.7% year-on-year growth. For a quarter-on-quarter growth was 19.5% compared to Rs. 51.3 crores for Q3 FY13. Profit after tax was at Rs. 40.2 crores in compare to Rs. 23.1 crores for the last year same quarter which is 74.2% growth year-on-year. On a quarter-on-quarter profits were down 3%, the reason as Rajesh rightly explained this quarter has a full 3 month interest charge compared to the last quarter where we only have one month interest charge because we were carrying the cash for repayment of FCCB. I will hand over back to Rajesh for business outlook.

Rajesh Subramaniam

From outlook perspective, our pipeline build up in our customer management pipeline is building up very well, especially in the banking and the financial services industry. What was the pipeline last year which was close to 0 is in excess of over \$75 to \$80 million at this point in time, so very focused approach. Telecom and media as I had also explained last time, there are couple of deals which are transformational deals which we have seat on the table which are in the last stage of decision making and this does have an impact on our growth aspirations next year, a positive outcome takes us to a different trajectory, negative outcome, status quo takes us to different levels again. The decision is being delayed, what was expected to go to decision by Q4 and contract by end of Q1 seems to be delayed. In our healthcare business, as I said, the payer business continues to do well. We will see superior growth rates and a significant volume increases and opportunities with clients based on ICD 9 to 10 conversions. The healthcare reform mandates are still playing themselves out. Companies are jockeying for positions and new service lines are emerging, we will see how this plays itself out over the next 6 to 9 months which will then sharpen our pencils in terms of the specific opportunities we go after. The provider segment has been a little bit of a mixed bag. As I said earlier that there have been clients that we have terminated. There are some clients which have internalized some of the functions, but overall given the nature of that market, given the fragmented nature of the market, I think that market segment is lesser prepared compared to the payers in dealing with some of the reform mandates. The reform mandates are not going to change things over night. It is going to take time. The healthcare industry reacts a lot slower than as much as say the banking industry does, so I think we have the right team in place. We obviously have very good customer relationships and this will be an engine of growth, but it is going to take time as we secure current clients with newer propositions and then we start looking for new logos in this business.

BFSI Collections business continues to be in a holding pattern. The tax season has not been as good as we thought it would be. The tax season this year has

been at least 5% to 6% lower than Q4 of last year. While the inventory of debt has obviously increased. It has not reflected in better liquidation rates or people's ability to pay at a certain velocity which was at least at the same level as Q4 last year, that has not happened, which also explains the fact that underperformance of this business obviously has had an impact on our Q4 performance. Margin expansion will continue. We achieved 11.7% EBITDA margin in Q4. Obviously we will have wage hikes in April we will have wage hikes from a life cycle perspective in July, but I expect to keep margins largely flat between Q4 and Q1 given the nature of business, as I spoke about and at the end of day even if the Collections business was lower than Q4 of last year, the seasonality ensures that Q1 normally is always lower than Q4, so despite the seasonality fall-off and despite of the elements that I spoke about, we expect to keep revenues from the new logs international services that we have added to start contributing from Q1 onwards which net keeps us revenues flat with slightly an upward bias and margin profile the same. So overall we expect FY14 to show an improvement of at least 200 basis points of margin improvement from year on year perspective and it could be higher. If some of the deals that we are bidding for translates, we expect the revenue profile to be significantly enhanced and we are watching out for the deal outcomes and the pacing ratio in terms of panning out these deals and the payer business continues to grow well. Provider business has got a new management team that we expect will deliver on the promise of Obama Care, the opportunities presented by healthcare reforms. Collection business is a cause for concern in terms of what is still happening, there is a cyclical headwinds in that business. The domestic business again has become profitable, it is making money but obviously there are some tough conversations that are ongoing with clients and in the way we engage with them. So that is my summary for FY14 and Q1. I will hand it back to the moderator to open the floor for questions.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan

Just wanted to understand a couple of areas. This quarter you did mention that collections was weak, any specific reason that it was weaker than anticipated or is it more some client specific issues that caused this weakness?

Rajesh Subramaniam

There are two issues, one is because of compliance and regulations. What has happened is lot of the work which we were doing offshore has been pulled back onshore, because the cost of managing compliance offshore has started to become prohibitive given what is happening in the industry. The Central Government in the US are creating certain mandates, which are making it extremely tough for banks to manage vendors offshore and because of that some

of my mature programs where inventory has been built up, and it is not peculiar to Firstsource, it is almost true for lot of these clients that we work for which are 8 of the top 10 banks in the US. That was one reason. The other thing is the liquidation rate, the conversion during tax season, the conversion of cash from a portfolio last Q4 was much better and obviously Q4 of FY11 was a lot better than Q4 of FY12. In Q4 of FY13, those liquidation rates are not as good as what we thought it would be. That is one of the reasons why I context my message to say that the tax season has not been as robust as what it was last year.

Srivathsan

The good growth is seen in the domestic business, would it be fair to assume it is predominantly more pricing than volume?

Rajesh Subramaniam

It is more pricing. You are absolutely right. I have got price increases from pretty much most of my customers and some of the customers that are not giving me price increases, we are in conversation asking them to take the business, but despite price increase some of my business are still not at the desired margin level, so there will be a fair bit of churn that we expect to drive, either I will improve my margins keeping revenues growing through price increases or revenues could remain flat to declining but with higher margin profile in FY14.

Srivathsan

On the specific bit of margin expansion you were talking of 200 bps which is very healthy, just wanted to get your thoughts on two points. One what would be the negative impact that would have during the whole year, because other operating income is about Rs. (-26) crores. Would all of it be hedges or there will be some amount of grant income which kinds of reduces that is part 1. Second is we have been maintaining all operating costs at a very tight level, operating expenses are so, most of this would predominantly be then from people cost that as percentage of revenues where you would see improvement more because of mix change and other things?

Rajesh Subramaniam

Absolutely. I think on the first question, grant income is a very small portion, most of it is on hedges. On your second question, we have right sized the organization for where we were. We are investing in engines of our business where we believe growth is. As I said, we have got a completely new team augmenting the existing team in the provider business. That is almost a million and a half dollars of SG&A investment for us. We have augmented our sales teams in the UK. We have augmented our product development and solutions teams in India. We have augmented our support functions around work force management and process excellence, so there are investments happening in pockets and there are right sizing happening in other parts of the business. So overall, I am completely confident of my margin expansion. There is a specific project we are running in driving in better operating levers. Last year saw margin expansion due to

structural alignment and issues around SG&A, facilities and all the low hanging fruits that we saw. This year, when I say FY14 is going to see margin expansion at the gross margin level driven by operating levers which have been identified especially in the provider business and my UK onshore business where we have lifted out 2 very large contracts, one from an existing customer and one from a new customer in Ireland, wherein both these geographies where these operations have stabilized, we are driving our efficiencies to drive margins. So this year, it is the 2% gross margin expansion is going to be from price increases, from operating levers around gross margin. We are making investments and we will get some help from hedges.

Srivathsan My last question is on terms of the interest costs, what should we look at? We look at something like 7% interest cost?

Rajesh Subramaniam Between 6.25% to 6.50% interest cost.

Moderator Our next question is from Niraj Somaiya of Rose Red Management. Please go ahead.

Niraj Somaiya First question on the debt, if I understood right, yes, it configures to be \$215 million, right both short term and long term divided in the two parts?

Rajesh Subramaniam Net debt as on April is about \$200 million. As I said, we have collected first week of April, we got about \$7 to \$8 million of cash, which should have been collected by March end. So our net debt position right now excluding short-term debt which is working capital secured by current assets is about \$200 million as on April 30th.

Niraj Somaiya The \$200 million you will be repaying the first tranche of 45 million, 11.25 million a quarter, right?

Rajesh Subramaniam That is right, \$11.25 million is payable every quarter, so 45 million of repayment in FY14 and about \$11 to \$12 million of interest costs all of which will be serviced by our cash flows.

Niraj Somaiya Do you think you can repay from the current positions you have?

Rajesh Subramaniam Absolutely, my incremental working capital, my capex, interest payout and debt obligations will be met through internal accrual.

Niraj Somaiya In terms of domestic business, have you taken any serious decision on what to do or any progress?

Rajesh Subramaniam Yes, we have actually terminated a couple of clients which are in the process of transitioning off and we are having conversations on price increases on several others. Our larger accounts have given us price increases. We have got price increase anywhere from 6% to 20%. So price increases is one conversation. The other conversation equally important as price increases is some of the changes in the service level agreement that were signed up hitherto historically. What were signed up in periods of high growth is different from what you have, the clients themselves are going through a down turn. So some of those service level agreement arguments are being tabled for a re-negotiation, but we expect that we will take some hard decisions on how we play that market segment.

Niraj Somaiya In the provider business any further improvement in terms of any new client acquisitions or you continue to have 750 hospitals. Any improvement on that because that is your future?

Rajesh Subramaniam Absolutely, in the payer business we have added one new logo which is extremely heartening and the sales cycles are longer. And in the payer business we have now finally managed with very strong focus, penetrating into the customer management side. In the payer business we are very strong on the claims, adjudication and the processing side, but we have had absolutely no inroads into the customer management side, which can scale very rapidly and be very profitable. So we have finally managed leveraging our expertise across UK and India in terms of the horizontal expertise we have had. We have now managed to penetrate a couple of customers albeit small pilots, but we have managed to get in there from a customer management perspective and I think over the next 2 to 3 years, the requirement for superior customer management at a price point which is better than some of the incumbents are doing for the large payers given the volume increases which is going to be driven by reform mandates. I think that can be a significant growth driver over the next 2 to 3 years. On the provider's side, as I said it is a fragmented market. The hospitals are not prepared for dealing with reform mandates. Right now it is a little bit of indifference which will get into fear, uncertainty and doubt over the next 6 to 12 months. We are securing our existing customers and we are creating a portfolio of products, when I say products, it is the product ideas which we can go to our existing customers and largely driven by the new management team I have, that have had opportunities of building billion-dollar businesses in their prior avatars.

Niraj Somaiya Do you yet continue to hold achieving the probability of a billion in the next three to four years from now or would it be faster? We have 10% EBITDA margin which is very significant. We have done all the restructuring parts, so from now how will you take the company from here, would it be a profitable growth, will it be the top-

line growth or will it be an acquisition growth, what sort do you see in the next year?

Rajesh Subramaniam I have a three-pronged approach, for me it was emerge, consolidate and break out, so we have emerged in FY13 from little bit of mess that we were in FY12. FY14 is a year of consolidation when I say consolidation, this is basically profitable growth, weeding out poor paying customers, poor margin customers. From my starting point of where I end up with the customers I want to work with and where I will end up in FY14, I will have a superior growth rate, in terms of profitable business and because of those actions my profit margins will expand. Will I be at my steady state profit margin in FY14, No. I think the margins can further expand. The investments we are making in building, equating the right teams in the right businesses and the productization initiatives will help us create propositions for our existing customers. My existing customers are my greatest ambassadors for growth. So if I take a look at my customer management business, which is a \$300 million plus business, my mandate to the team is how do we double this in 3 years, what interventions we need and exactly the investments we are making, so I believe the seeds of those will start reflecting in FY15. Our aspiration is to be at a growth rate which is superior to whatever are the industry growth rates which the pundits put out, so that will be our aspirations and I think FY15, if everything goes well we should be looking at an EBITDA profile of somewhere in the 14 to 15% levels.

Niraj Somaiya One last question, any view on your goodwill, any impairment, any plans or what decision is taken on that?

Rajesh Subramaniam Not at this point. Right now it has been tested on an appropriate basis and the audit committee, so we will take a view on this. First priority is to start getting some confidence back as we start servicing our debt and paying off \$11.25 million a quarter. Once I do that, the degrees of freedom and flexibility I have completely improves.

Moderator Thank you very much. Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja Just wanted to get a sense on the growth in our US business ex of the healthcare part because that remains largely tardy for the last 3 to 4 years if you could talk about what you are doing to address the growth on that side? Then, secondly if you could repeat the different levers that will help us in improve margin spike close 200 basis points next year and then finally a question on the tax rate for FY14?

Rajesh Subramaniam My payer growth is from wherever they are they will be growing about 15 to 20% over the next couple of years. Our collection business growth rate is difficult for me to project because it depends on the credit environment and the recovery of the credit cycle in the US. There are some sign that the worst is behind us that is what we would like to believe because the inventory of debt, if the consistent decline, which we have been seeing as obviously stemmed and that seems to be a small uptick in the inventory of debt. So when there is an uptick in the inventory of debt, we are at the tail end of the cycle where the debt gets charged off and then we get into business. So the collections business is difficult for me to predict, but we are adding new logos. Compliance is making it difficult for us to make a differential level of profitability in that business, because the cost of compliance is expensive. And as far as the customer management as I said we spoke about penetrating the healthcare market where we expect that we can build significant scale. The traditional customer management business that we are very strong in the UK around financial services and telco, I cannot go down that approach in the US because there are big competitors there in pole positions with lot of market, so the question is the new productization services that we are building can we then create these arrowheads and go into that market segment in the future. Right now I think our priority in the US market is to completely scale the payer business along what we are doing and what we plan to do with customer management and in the provider business stabilize the ills that have plagued us in the past and get that platform to go and encapsulate the opportunity presented by healthcare reforms. So predominantly my growth engine at least for the next year will be the UK given the pipeline that we see, Australia is promising. Our best hunter has been seated in Australia and I think the pipeline is looking good. But in our business sales cycles with new logos are anywhere between 9 months to 18 months, but existing customers can grow significantly. So FY14 again will be driven by businesses out of the UK and the payer business in the US. Collections and provider will be largely on a consolidation basis.

Manik Taneja It would really be helpful if you could talk about the events especially because we have put in a lot of efforts with regards to rationalization of our facilities, reducing lot of cost over lapse?

Rajesh Subramaniam Let me tell you some specific initiatives. Last year as I said was all the rationalization we did what was evident around SG&A, making sure we have the right deals, facility rationalization support through our function realignment and right sizing, when I say right sizing I basically mean somebody has spent 10 years with the organization and suddenly you find them at \$100,000 salary and I can replace them with somebody with \$40,000 salary with the same productivity, some of those actions we undertook. But this is the year where we are driving gross margin improvements, very specific, 4 or 5 criteria. In my provider business,

we are looking at our entire inventory management. When I say inventory management we have what we call approved inventory and unapproved inventory. Approved inventory is what has been approved by the Medicare, Medicaid and are awaiting payment. Unapproved inventory is where the work has happened, but it has not been paid. So right now at any point of time, the combination of two, we are anywhere between \$1billion to \$1.2 billion and the question is how do I drive velocity in moving my unapproved to approved. How do I drive intelligence in driving out of my unapproved to approved? What are inpatients, what are outpatients? Within an inpatient what are the big ticket items and what are the chances that Medicaid, Medicare and which state has the higher probability of paying a certain amount of cents to a dollar. So there is a lot of analytics being driven and process flows and work flows which are being driven to drive a level of efficiency to throw up a lot more cash and profit than it has historically. Then as I said in the UK, the customer management business two customers, one new and one existing have grown with us. We have taken their people, we have taken our people from other vendors, who have consolidated with us, and we have stabilized that. Now we are driving efficiency in that. So these are \$10-\$30 million contracts, very large contracts where the impact is significant, that is the other initiative. Then I spoke to you about the domestic business where our price increases is something we are effecting and that is the business that can also shrink because we might be reducing our portfolio. And anything that we are doing is not at the cost of investing in teams or investing in product ideas, that is also something which is ongoing. From the operating side, this is what we expect to drive when I expect on a run rate basis in March, the budget that we have could generate about \$7 to \$10 million in cost saving or performance improvements and coupled with that we obviously have ongoing rationalization of people processes and infrastructures, so that will have some impact. Then obviously we have been in better favorable hedges in FY14 compared to FY13 that will have a positive impact. So these are broadly and I will ask you to take it offline and discuss with you how these will work out in terms of the build up to at least 12% EBITDA, my sense is it could be slightly higher than that 12% EBITDA is something I am extremely confident of. Having said that now I will ask Dinesh on what is guidance for the tax rate for FY14.

Dinesh Jain

I think for current year we are closing below 10%, but next year it is going to be between 10 and 12%.

Moderator:

Our next question, it is a follow up question from Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan Just wanted your thoughts; you said that it could be potential decline for some revenue from the domestic business. How large can it be and will it kind of eat away the overall growth registry that we are planning for FY14?

Rajesh Subramaniam Too early for me to comment. I do not want to put any numbers on at this point in time, but yes, the domestic business is a Rs 350-370-crore estate for us and in FY13, that estate generated EBIT loss for me and to that if I apportion interest cost, most of my working capital is locked in this business unit. The numbers are hugely dilutive and it is our specific endeavor to ensure we get that into positive territory and whatever actions we need to take to do that. So I will not grow, but I want profitable growth that is why I context my statement saying that the business that I want to keep to where I will end in FY14 are my growth rates will be double digit, but the lot depends on the customers that we weed out. There are customers we are weeding out in the provider business where some of the hospitals I work for are in remote locations where the cost of servicing the customer is higher than the revenues I get, and there are some customers which are no brainer termination, there are some customers we are going with new product lines where if they sign up a larger product line then it makes sense in retaining, so all these conversations are going through, it is very difficult for me to give a number that this is what is happening, but what I am telling you is my margins will improve and I will have the investments made to ensure that in FY15 you see a completely different profile of quality of ours.

Srivathsan And then in terms of capital, we are pretty similar to what we saw in '13?

Rajesh Subramaniam Will be lesser.

Srivathsan In terms of your working capital we have had, possibly FY13 is the best working capital. So do you think you can run such a tight ship on the working capital front?

Rajesh Subramaniam Working capital should improve with better results from a domestic business.

Moderator Thank you. The next question is from Sudhakar Prabhu of Span Capital. Please go ahead. Please go ahead.

Sudhakar Prabhu I had a couple of questions; one is out of your 500 million of revenue, how much would be recurring or annuity-type of revenue?

Rajesh Subramaniam We do not have project-based revenue, I do not need to hunt contract every quarter. So most of my contracts are long-term contracts or evergreen contracts, for example, in my Collections business, and my contracts are monthly contracts. The MSA is evergreen but the level of placements I get is predicated on my performance on a monthly basis. So I might have a contract with a collection

client which is evergreen but my revenues could shrink if I am not performing well or my revenues could increase if I am performing well. Similarly, my customer management contracts are all between 1 to 5 years. My healthcare provider contracts are all long-term contracts. So I do not have project-based revenues.

Sudhakar Prabhu So based on this and your existing pipeline, what kind of revenue visibility do you have for the current year? Do you think you can meet the NASSCOM guidance of 12-14%?

Rajesh Subramaniam As I said, NASSCOM guidance is 12-14%. So right now if you want me to put some numbers down, I think my sense is our range if we are lucky in terms of the deals which are awaiting decision and if they go our way we could be at Rs 3100 crores, if we are unlucky and everything does not go our way and we still drive the client rationalization measure that we have we could end up at somewhere maybe Rs 2950 crores, in revenues. But, all I can say is that even if I am at the lower end of the revenue range, my EBITDA margins will be higher than 12%, if I am at the higher end of the range it will definitely be at least 12%.

Sudhakar Prabhu Lastly, on the revenue productivity, is there any scope for improvement, because if I compare with your peers they are doing much better than Firstsource? So just to understand, why is it so?

Rajesh Subramaniam There is always scope for improvement. We are coming off of very tough FY12, we are getting the building, blocks in place to break out in FY15 and beyond. Just be little patient and ride with us.

Moderator Thank you. The next question is from Ravi Menon of Equirus. Please go ahead.

Ravi Menon Just have two clarifications; one is, are you looking at improving the seat fill factor? Is that one of the levers are you looking at over next year?

Rajesh Subramaniam Absolutely yes, people factor, various parts of my business have various rhythms. So some businesses are measured in terms of yield shrinkage, our utilization, in terms of seat fill factors, which is how many people I use and sweat my seats. Again, it is not one metric that I can use across all my businesses but absolutely, people utilization is the heart of driving productivity because 70% of our revenues are construed by people cost.

Ravi Menon Second is, I am struggling to understand the personnel expenses, the decline of 1.4% here though the non-India headcount went up actually, not the same as the headcount declined in India. So I would have imagined that non-India headcount the cost would be higher but still we have ended up with personnel expenses slightly less than last quarter.

- Rajesh Subramaniam** So that is the logic I was telling you. We replace \$100,000 resources with \$40,000 resources.
- Moderator** Thank you. The next question is from Anand Rawani of Horizon Research. Please go ahead.
- Anand Rawani** What is the capex plans in FY14 & 15?
- Rajesh Subramaniam** Capex plan will be, my sense is anywhere between \$7-8 million in FY14. FY15, it is still too early for us to comment right now but we have significant capacities in offshore locations in Philippines and in Bengaluru and in Mumbai where we have two very large SEZs which can support significant levels of growth. Any growth that comes onshore, in the UK we are maxed out if there is growth in the UK, we will have to look at building capacities, some of our clients are having conversations about us going to South Africa and some of the Central America, Latin America countries, so depending on how those opportunities play out we will firm those plans. But as of now excluding those new geography entries, \$7 million number would be safe to assume.
- Anand Rawani** And is it possible to quantify this have an impact on employee cost as a percentage, I mean in percentage terms for every 1% change in attrition rate?
- Rajesh Subramaniam** Very difficult. As I said, our business is not one model. I can give you a weighted average number today but if the composition of the business changes in ensuing quarters that number will start looking different. It's very difficult to triage one number across the different businesses, we have across the different geographies we operate in.
- Moderator** Thank you. As there are no further questions from the participants I would now like to hand the floor back to Mr. Rajesh Subramaniam for closing comments.
- Rajesh Subramaniam** Thank you everybody for your time on this call, thank you for the questions and words of encouragement. It has been a good year for us from where we were in FY12 and where the company was in relation to the payment of its liability and we managed to get a strong promoter in and obviously, the turnaround, we have won one of the battles, we still have a long way to go in restoring our margin profile and growth profile but at the end of the day I think I have very good management team and I have customers which are amongst the best to whom we will sell more into and create deeper relationships. So, thank you for your time today and I look forward to speaking, meeting with you in the ensuing quarters.
- Moderator** Thank you. Ladies and gentlemen, on behalf of Firstsource Solutions Limited, that concludes this conference call. Thank you for joining us.