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Growing Legacies



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Q4 & FY2015 Earnings Call Transcript – May 05, 2015

CORPORATE PARTICIPANTS:

- Mr. Rajesh Subramaniam – Managing Director and Chief Executive Officer
- Mr. Dinesh Jain – CFO
- Mr. Ganesh Iyer – Head Strategy & Investor Relations

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Firstsource Solutions Limited Q4 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only modes. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ganesh Iyer – Head - Strategy and Investor Relations. Thank you. And over to you, Mr. Iyer.

Ganesh Iyer: Thank you. Welcome everyone and thank you for joining us for Q4 and full year ended March 31st, 2015 earnings call of Firstsource. Please note that the results, fact sheet and the presentation have been mailed to you and you can also view them on our website www.firstsource.com. To take us through the results and answer questions, we have with us today 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 Q&A session.

I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with uncertainties and the risk that we face. These uncertainties and risks are included but not limited to what we have mentioned in prospectus filed with SEBI and the subsequent annual reports that you can find on our website.

With that said, I would now turn on the call to Mr. Rajesh Subramaniam – our MD and CEO.

Rajesh Subramaniam: Thanks Ganesh. Good morning, good afternoon, and good evening to all the participants on the call. I will spend some time on the FY15 highlights as I will on the Q4 performance and then spend some time on the business outlook. For FY15 our operating revenue came in at Rs 3,035 crores compared to Rs 3,106 crores in FY14, a year-on-year de-growth of 2.3% in rupee terms and de-growth of 5.3% in constant currency terms.

Operating EBIT for FY15 came in at Rs 308.6 crores compared to Rs 286.4 in FY14, year-on-year growth of 7.7% and the margin expansion of 95 basis points from 9.22% to 10.17%. Profit after tax came in at Rs 234.3 crores

compared to Rs 193 crores in FY14, a year-on-year growth of 21.4% and a margin expansion of 150 basis points from 6.2% to 7.7%.

Q4, operating revenue came in at Rs 754 crores compared to Rs 796.2 crores in the same period last year and Rs 751 crores in Q3 FY15. Q-on-Q growth of 0.4% in rupee terms and flat in constant currency terms. The constant currency growth would have been closer to 2.2% but for two or three elements which I will talk about more in detail as we dig deeper into the presentation. But at the headline level we run down about thousand FTEs in the domestic business because certain pricing negotiations didn't go where we wanted it to be and it resulted in shut down of operations in some of our centers both in North India and South India which also has an impact on the fill factor which has obviously come down because the carrying capacity while we are not carrying any ongoing operations. So, the domestic business has contributed about Rs 4.5 crores reduction in revenue which obviously will improve our margins going forward, similarly we have had almost 4 to 5 day shutdown in Louisville which is the center of gravity for our Customer Management business in North America and a significant part of our Healthcare Provider and payer operations. That has impacted us by about \$200,000 in Q4, and as a result of the weather and we had volumes which were softer than expected from the large telco deal that we won on account of the seasonality that they have seen in their business in Jan, Feb, March which impacted us by roughly about \$650,000 to \$700,000. So a combination of these 3 events have resulted in flat constant currency growth which otherwise would have been closer to about 2.1% growth on a sequential basis.

At the operating EBIT level, Q4 came in at Rs 81.3 crores compared to Rs 80.8 crores in the same period last year and Rs 74.6 crores in Q3. The quarter-on-quarter has been 8.9% and the margin expansion of 90 basis points from 9.9% to 10.8%. Year-on-year growth of 0.6% and margin expansion by 63 basis points from 10.15% to 10.78%.

At the PAT level, the Q4 PAT was at Rs 62.3 crores compared to Rs 58.8 crores in Q4 last year and Rs 57.5 crores in Q3. The PAT also has an appropriation of almost Rs 1.7 crores towards the CSR contribution to the group which otherwise the profit obviously would have been higher by Rs 1.7 crores. Quarter-on-quarter growth of 8.3%, margin expansion of 60 basis

points from 7.7% to 8.3%. Year-on-year growth of 5.9%, margin expansion by 90 basis points from 7.4% to 8.3%.

Cash and debt position, cash and cash equivalents of Rs 147.8 crores compared to Rs 140 crores in the previous quarter, we repaid our eight installments of \$11.25 million which takes total payments of about \$90 million till date. CAPEX spend was Rs 11.6 crores which was required as we set up a new center in Eugene in North America for one of the deal wins and also expansion in one of our payer clients in the Customer Management side of the business.

Net long-term debt as on March 31st 2015 was of \$87 million. The foreign exchange hedges, the outstanding hedges at US\$39 million and GBP 61million. Next 12 months 90% coverage of the dollar at Rs 66.7 levels and 90% of the pound at Rs 109.3 levels and we have a small exposure between the pound and the Philippino Peso, so we are 4% coverage at PHP 73.1. For the next 12-24 months, a 46% coverage for USD at Rs 69.4 levels and 66% coverage for the pound at Rs 111.7 levels.

Employee strength, seat capacity and utilization, 25,285 employees as on March 31st 2015, seat capacity of 24,001 for 47 delivery centers the same as last quarter, 16,029 employees in India and 9,256 employees based outside of India. Net reduction of 1,336 employees in Q4 of which just over 1000 was in the domestic business. Seat fill factor at 68.5% compared to 71.7%, again an argument of carrying capacity where the business has ramped down which will correct itself in Q1FY16. Attrition, offshore India and Philippines 52.7% compared to 47.1% in Q3FY15, we did see a spike in attrition in Q4. Onshore 40% compared to 37.4% in Q3FY15, domestic 91% compared to 80.6% in Q3FY15.

From a summary of our financial summary of how our revenues stack up by geography, delivery verticals and client concentration, North America contributed 54% of our revenues, the UK about 36% and India and rest of the world at 10.3%. India and rest of the world came down from 15.7% to 10.3% on the back of the large telco client that got consolidated in the latter part of Q3 and of course the domestic business ramp down that as I had explained in Q4.

From a delivery location, the domestic business which was 8.5% in Q3 has shrunk to 7.9%, offshore 70 basis points reduction from 24.2% to 23.5%, this is volume softness in one of our large clients which will come back up in Q1 and onshore grew from 67.3% to 68.6% on the back of scaling some of the deal wins that we saw last year.

From revenue by vertical, Healthcare continues to grow at 38% compared to 35.5% in Q3. Telecom and media shrunk because of the reasons of the large European telco and the domestic telco business that shrunk from 44.3% to 37.5%. BFSI has grown on account of both the collection seasonality factor in Q4 plus some of the growth in the business that we have won in the banking industry from 20% to 24.3% in Q4. Our top client is at 22.2% compared to 24% in Q3 and our top five clients contribute 42.6%, down from 43.9% in Q3.

For the full year basis, the numbers are exhibited. India and rest of the world de-grew from 17.7% to 14.9%, UK 35.6% to 36%, 46.7% is North America up to 49.2%. Revenue by delivery location of domestic de-grew by about 130 basis points from 9.6% to 8.3%, offshore improved from 22.7% to 25% and onshore 67.7% to 66.7%. From a revenue by verticals, again, very consistent with what we saw in Q4, Healthcare continues to grow from 32.5% to 35.8%. Telcos 44.6% to 42.5% and BFSI 22.6% to 21.5% in FY15. From a client concentration perspective the largest media client is 23.5% in FY15 compared to 21% in FY14 and top five are at 43.2% from 45% in FY14.

Now the numerical representation of our financials. In Q4 as I had mentioned Rs 754 crores in revenues, 5.3% Y-o-Y de-growth, 0.4% Q-on-Q growth in rupee terms, constant currency is 2.3% and of course but for the reasons growth would have been 2.1% in Q4 over Q3. Operating EBITDA 6.1% quarter-on-quarter growth and 0.4% year-on-year growth, margin expansion from 12.4% to 13.2% in the year-on-year period. Operating EBIT at 10.8% has grown 9% quarter-on-quarter and profit after tax has grown 8.3% quarter-on-quarter and 6% year-on-year.

On FY15 basis, again, the call outs are largely around 21.4% growth in profit after tax exhibiting a margin expansion of 150 basis points. EBITDA margins have grown from 11.7% to 12.5%, we have made significant investments in our SG&A, we have hired new sales team, new heads in the UK and the

geographies and also in the sales in the Healthcare organization. We made significant investments in the BTO function, the results of which will play out over the next couple of years. So despite being a softer than expected year in revenues, we have continued our investments and increased our SG&A absolute spend year-on-year which will hold us in good step over the next couple of years.

From a business outlook, FY15 was a challenging year. Apart from losing one of our top five telco clients which ultimately would be margin accretive, but nonetheless it was a reasonably sized. Delays account and that we have also seen significant delays in our ramp ups, so accounts which were supposed to grow with the committed scale up have been delayed, they will fructify this year but the base ratio will be staggered right up to December, not something that will happen in Q1 but the growth is coming back. And due to poor weather conditions in Q4 we lost 5 to 6 working days in Louisville which definitely did impact us because they are all revenue generating days.

FY16 is positive, demand environment is good. We won deals of \$15 million in Q4, taking our April to March ACB wins of about \$105 million. So net of shrinkages and losses, it still fetches up very well for a 7% to 8% growth in FY16, very confident that these numbers will be met and potentially with some of upward bias. We continue to as I mentioned the investments we made in the BTO function, the products that we have launched in North America and the Provider business, MedAssist is revenue Assurance services and MedAssist business office services, pipeline is building up well. Over the next six months we will monitor and hopefully bring some of these pipeline deals to closure. Significant investments around automation and the Digital strategy of creating better omni-channel interactions in the Customer Management world is paying off, and supporting the investments we have made so we clearly see some of the operating leverage is paying off to support anywhere between 100 to 120 basis points improvement in FY16, again, that could be positive surprises here but 100 to 120 basis points is something we definitely underwrite at this point in time based on where we see our business. And yes, \$45 million of debt continues to be repaid as per plan.

So that in summary Ladies and Gentlemen is the highlights of our results for Q4 FY15 and FY15. I am happy to open it up to the floor for questions. Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the next question from the line of Karan Taurani from Religare Capital Markets. Please go ahead.

Karan Taurani: Hi. Sir just wanted to know about the tax rate outlook for FY16-17.

Dinesh Jain: It will be around 10%.

Karan Taurani: Okay. And sir in terms of your margin expansion, I mean what is the sustainability and what drove the margin this quarter?

Rajesh Subramaniam: See, margin this quarter, our EBITDA margins were close to 13.5% in Q4 and Q4 normally is seasonally a better quarter. For next year our target EBITDA margins are 14.2% to 15.3% which will translate into a PAT margin of somewhere very close to 10%.

Karan Taurani: And in term of the outlook for debt, you still continue to repay or what is the outlook?

Rajesh Subramaniam: Yes, we continue to repay in \$45 million a year, \$11.25 million a quarter.

Karan Taurani: So that we continue?

Rajesh Subramaniam: Yes.

Karan Taurani: And the attrition, any such negative surprise or it is a normalized thing that Q4 attrition size is really higher?

Rajesh Subramaniam: Q4 attritions are higher as it's the exam season, so lot of people are taking their competitive exams be it for the post graduate or some of the other professional courses. So normally Q4 is a quarter where attrition spike normalizes sometime though as a latter part of June when the vacation time, the vacation period also ends.

Karan Taurani: Just lastly in terms of salary hike, have you announced anything?

Rajesh Subramaniam: I am sorry, can you repeat the question please.

Karan Taurani: The salary hike.

Rajesh Subramaniam: Yes, the salary hikes will be anywhere between 8% to 10% for offshore, but the absolute impact on the wage will be about 3% to 3.5% and onshore would be anywhere between 2% to 2.5%.

Karan Taurani: So that will be coming in Q1 or it will come in Q1, Q2, what is it?

Rajesh Subramaniam: For the operating world, for the agent population it will be in Q1, for the SG&A employees it would be from Q2 onwards.

Moderator: The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: Sir the first question is on the revenue outlook part of 7% to 8%, given that Q1 is going to be a soft quarter, so next three quarter we at least need upward of 6% CQGR to achieve lower end of 7% growth. So what is the lever that is going to drive the growth given that the last 12 quarters there is hardly any growth we have seen.

Rajesh Subramaniam: So the levers are very simple, we have won \$105 million of business, net of shrinkage and the attrition of clients that we have. And of course, the net of revenues we have already earned in FY15 from \$105 million, I clearly have \$35 million to \$40 million of business that we'll accrue as revenues next year today, today as in as on April 1st.

Sanjeev Hota: Okay. And I believe that the H2 is going to be stronger, seasonally strong for you. So H2 is going to drive growth for?

Rajesh Subramaniam: Absolutely. H2 Q4 is the strongest quarter, Q3 is usually the weakest quarter because you have lesser number of working days but you will see the momentum, I mean at this point in time despite the follow-up of collection seasonality our revenues for Q1 would be the same without any surprises on the domestic business, any further surprises on the domestic business and we would be able to maintain our profitability levels which will set us well for the margin expansion that I had spoken about.

Sanjeev Hota: And could you please give us some idea on this India business, headcount reduction is at and what is the strategy going forward on the India business?

Rajesh Subramaniam: As it has been very consistent, we will stay in this business as long as it is commercially viable and it is at least cash positive, this business is margin dilutive. And we have the right of price increases in our contracts with our customers, also further split into specific lines of business where the indexation comes in. And for some of the reasons we have seen a combination of dealing with volume vagaries which necessitates us to create investments that would have bled us and the fact we were not getting short in line, so this is the shut-down. So we have shut down a center in Hooghly, we have shut down a center in Patna and with their some rationalization which has happened with one of the larger Telcos on one line of work in Mumbai, a combination of which is ensured that with the pacing ratio of differential periods of timing of the ramp down we have lost about Rs 4.5 crores in revenues in Q4.

Sanjeev Hota: And on the margins part for last quarter, we have stated that margin outlook for FY16 is 100 to 150 basis points, but now we are saying it is going to be 100 to 120 basis points given that we have not changed our revenue growth outlook, so what is the reason we have changed our margin growth outlook?

Rajesh Subramaniam: I think the margin outlook growth is because one of my US Telcos, the ramp in phase 2 in Eugene the first phase of 200 FTEs has committed second phase there could be further delays and that is web chat work around customer service which is highly profitable. Maybe I would come back to you in end of Q1 and restore it back to 150 basis points but in the interest of being transparent based on the visibility we currently have, we are stating that 100 basis points to 120 basis points is something we clearly see certain at this point in time. And as I had mentioned qualitatively there could be an upward bias on these numbers.

Sanjeev Hota: Okay. And some book keeping questions, in this quarter anything one off in the SG&A part expenses because the 6.7% Q-on-Q change, so is there any one off in that part?

Rajesh Subramaniam: In other expenses we have provided for Rs 1.7 crores in CSR which we had earlier provision for and as per the Companies Act, so Rs 1.7 crores is only

expenses which we have provided for otherwise our profit after tax would have been Rs 64 crores.

Sanjeev Hota: Okay. There is not a one off because in FY16 also it is going to provide...?

Rajesh Subramaniam: Yes, so I can smooth it rather than providing it in Q4.

Sanjeev Hota: And last question is on the depreciation, what kind of run rate we can assume for depreciation?

Dinesh Jain: See, it will remain at the range or it will be slightly higher because we have invested in this quarter so probably full year impact will come next year for one of the center we capitalized. But it will be more or less the same levels, probably, slightly 1%, 2% higher.

Moderator: Thank you. Next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: My first question relates Rajesh to the pipeline, we ended Q3 with \$415 million odd, just wanted to get an update in terms of the pipeline. And secondly if you could give specific color more to the Healthcare vertical, I think few quarters back we had mentioned that it would grow at 16% to 18%, just wanting to get a sense over there.

Rajesh Subramaniam: Yes. The pipeline as of Q4 stands at \$495 million.

Priya Rohira: Sir, there is an addition of \$80 million odd right from Q3 to Q4?

Rajesh Subramaniam: Yes, absolutely. \$415 million to \$495 million, significant portion of that is driven in our Customer Management world and as I said, the demand environment is looking good and based on the investments we have made we believe we will have our fair share of wins going forward. In the Healthcare business, the payer business continues to grow exceedingly well and very confident of the health of that business going forward. On the Provider business, the interventions we have made around the new product developments where we have seen the pipeline built to about \$18.5 million in that business. But a pipeline means nothing unless we convert them to wins over the next six months, we are hoping to bring a couple of deals home which will then ensure that the Provider business which is being flat to

decline will start getting back on the growth trajectory because the market is there. So at least on the Healthcare side payer business extremely positive, Provider business as I said will grow at about 10% but the payer business will grow in the high teens and some luck closer to 20%. So as a combined vertical, I will still hold to my guidance of 15% to 16% growth in the Healthcare business.

Priya Rohira: Sure. And just as a follow-up on the Provider part, you mentioned that you have introduced couple of new products and there of course pipeline has been better, these are all driven by more productization benefit you are looking at both at the top line and at the margin level?

Rajesh Subramaniam: Yes, absolutely. So we have introduced two new products, MRES™ and MBOS™ which is MedAssist which is our Healthcare Provider brand MedAssist Business Office Services and – MedAssist Revenue Enhancement Services creating a more end-to-end. So today our services are point solutions in the frontend and some at the backend and we miss a big element of the billing reconciliation and denials management in between. So for the frontend we have tied up, we have a white label partnership with a technology Provider and so do we have for the backend and the embedded with the point solutions that we deliver, we have managed to impress upon CFOs on what more we can do because we already on a outcome basis in our relationship, so without any further skin in the game for them based on the impact we drive so the conversation now people because of the relationship they give us a hearing, they like us, we do exceedingly well in what we are doing right now, but one of these NPVs should convert into an absolute pay order which will then open the gates for us with the other relationships we have in the hospital network. So lot of what I am saying seems theoretical at this point in time, that's why I keep reiterating sort of the \$18.5 million pipeline, the target is to bring a couple of deals home over the next six months, and once that happens I think we would have a differential level of growth from NPV vis-à-vis our traditional eligibility and revenue in Receivables Management business.

Priya Rohira: Sure, that's helpful. And could you enumerate on your hiring and hiring plans and CAPEX for FY16? And just as a book keeping, just wanted to understand is there any change in the goodwill which we have stated in this quarter?

Rajesh Subramaniam: Yes. So hiring plans Priya I think given the fact that I could ramp down 1000 people in India and hire 150 people in US and my revenues will improve. So using my hiring plan it might not give you an accurate representation of how my revenues will build up and we don't track the business that way. But as I said the growth rates that we have indicated, definitely we will be based on the order book we already have level on any conversions from the pipeline. And the third question on goodwill, yes, we have written off about close to Rs 369 crores of goodwill against our results which obviously is goodwill assigned to the Provider asset which we were carrying almost \$330 million, we have written-off about \$60 million of goodwill in that business. And I am sorry Priya, your second question, I missed the second question.

Priya Rohira: The CAPEX part, the CAPEX for FY16.

Rajesh Subramaniam: The CAPEX would be roughly between \$10 million to \$12 million is our expectation and more than 50% would be funded through operating and finance uses.

Moderator: Thank you. We will take the next question from the line of Srivatsan from Spark Capital.

Srivatsan: Hi, Srivathsan here. Rajesh, just wanted couple of your thoughts mainly on the various pieces where we are seeing some ramp downs than what we have anticipated. Just wanted to understand what is driving this ramp down seems to be happening across clients and is there any compensation that clients pay for not ramping up as per plans because there you hire, you have a substantial amount of cost that sits into it, so just wanted your thoughts.

Rajesh Subramaniam: So the two big constituents Srivatsan – one is the telco client in the US where I won't say the client volumes have been soft not solely because of seasonality but also because of certain operational issues. We had planned for attrition of about 7% to 8% a month, we are running attrition at 15% to 20% a month. So that business alone which should have as a process in the growth phase should have been a negative \$0.5 million during the ramp phases, it has costed me about \$1.8 million, the recovery is underway, we know what we need to do and that's the reason why there has been volume softness. It will come back but it's a part of the game, in terms of getting into a new city rather city we know but in a new line of work with a different working class and going through the entire pain of hiring, training, and

bringing people up the learning curve. See, on the domestic business I just cannot take clients, I cannot re-contract on terms which are unprofitable. Domestic business was \$50 million in 2014, \$44 million this year, we are projecting it to remain at \$44 million, but I cannot predict whether \$44 million will drop to \$40 million if there is the engagement with clients does not play out. So that is one. My Healthcare business is doing well Srivatsan. My clients are scaling, my top client is scaling, and top five clients are scaling. As far as my largest client is concerned, we did see some softness in Q4 largely aligned with how they are shifting their Digital strategy and reevaluating their entire Digital strategy which saw some of rebalancing of FTEs in the Webchat work that we do for them. But all that is a part of the game, it just happens. None of these can be predicted and none of these can be smoothed but all I can tell you is that if we didn't have the setback on Verizon Wireless and the domestic business, our growth rate Q-on-Q would have been closer to 2.1%, 2.2%; I had given a range of between 2% to 3%, we're definitely going to be in 2% but I won't say setbacks domestic business anyways as a portfolio we are looking. As I have said we will be in business if it makes sense and we will enforce hard decisions if it is not economical to make it work. And the popular question is attractive deal wins but how will they translate and when will they translate into revenues, just have some patience we will demonstrate the growth rates we have articulated based on what I have shown as a path of how the growth will unfold over the next three-four quarters.

Srivatsan: Sure. The next question is more on the Customer Management at a broader space, if you could just take a slightly longer term, three years kind of call on that space. So you see substantial risks to that piece of business given the amount of sales that is playing thanks to the Digital piece. How are you trying at least to retain the revenues where we are , and in the next 12 months it may not be a challenge but it will take a three to five year view, do you think that piece of business, especially the Customer Care business substantial risks from Self-Care?

Rajesh Subramaniam: No. So let me, the Customer Management business, again, it is not simplistic, all the processes go to self-help and get automated. Today, the Customer Contact Center channel is the most effective and least expensive sales channel for our clients unlike high street branches or outlets. So there is a bright balance of creating a Contact Center Network that drives sales, at

the same time to drive a higher level of advocacy the omni-channel framework of a combination of voice contact and then the deflection arguments around web and then deflection arguments around how I am push people to self-help will be created through a very careful analysis of the process chain and what activities can move there. This business is here to stay Srivatsan, I mean over the next three years what will happen is the linearity of FTE addition to revenues will change, FTE additions will be a lot more muted but the revenue acceleration will be a lot more higher and this business between what we see in the demand environment from the banking industry in the UK from the Telecoms and media industry in the UK and the telecoms Industry in the US and the Healthcare industry in the US, I am extremely bullish about the long-term prospects of this business.

Srivatsan: Sure. My third question is on the margins, fair to look at it at least at some level if we are to, most of the incremental margins, in fact all of it or more than it has come from the change in the operating income which predominantly is contributed by the hedge gains that we have at least in FY15, FY14 we had losses, FY15 it has moved in to positive territory. Just wanted to understand, how do you see it ex-FOREX because ex-FOREX looks like FY15 or over FY15 you see margins decline?

Rajesh Subramaniam: No, no Srivatsan lot of my hedges gains, ours is based on 12 months, we hedge based on a 12 month' basis. So a lot of my FX gains on the offshore book I have is predictable, my investment decisions are also based on the leverages I have be it on pricing, be it on my SG&A investments despite a reduction in revenues my SG&A investments have actually gone up by about Rs 10 crores to Rs 12 crores but in FY14 and FY15. So how do I make these investments without understanding that I have the leverages in the business to absorb this, so while the representation of the hedging gain is shown as another operating income, this is based on the leverage I have is taken to run the business.

Srivatsan: So on an ongoing basis just wanted to understand how have clients especially in UK looking at or exploring pricing, because care to see on a year-on-year basis you still down possibly about 10% odd, now especially for contracts you are signing up now, are clients even looking at you on a small price hike at some level at least for the offshore book?

Rajesh Subramaniam: No, the price hikes there are three contracts – one is onshore and two offshore, there are no price hikes. The good thing is one contract has moved a big element, when I say big it is material from given the size of the contract to a gain share model where there are outcome based results on how much sales I can drive and how I can reduce what we call the super detractor which has a direct impact on churn where I have the ability of earning rewards. One other contract has moved from an FTE model to a Connect Minute model where again it is using operating leverages, so while in theory there will be a price reduction from a margin perspective I could actually end up better because it gives me more flexibility in how I run my shop floor, but there are no price hikes Srivatsan.

Srivatsan: Okay. And my last question is on terms of now you have done a fabulous job on bringing the balance sheet in to shape, so just wanted your thought process, if you are going to go on another \$40 million to \$45 million of debt repayment this year, you would be in a very-very comfortable position, so just wanted your thoughts on capital allocation on a going forward basis.

Rajesh Subramaniam: Yes. Debt repayments will happen, some conversation on debt refinance at more attractive rates to drive higher profitability are also happening, there we definitely see a little more reduction in good will and to help drive better ROCs and ROEs. So FY16, our balance sheet health will obviously be much better than what it was in FY15.

Moderator: Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: One question on the Healthcare side, because we are seeing more deals from Healthcare, is pricing different in that particular vertical and therefore should we see any bias at the company level?

Rajesh Subramaniam: See, in the Healthcare vertical most of my business is on a per transaction or on outcome basis. So the scope changes and price reductions will happen with higher volumes and that's clearly that is evident, but unlike the Customer Management business as majority of it is on an input basis here my ability to defend my margin is a lot more stronger.

Mohit Jain: So when you look at it on a per transaction or outcome base, if we try to do the same thing on per FTE, per employee basis, do you think it's moving up or moving down?

Rajesh Subramaniam: No, it is like comparing an apple with an orange. If I do it on a per FTE basis there would be at the same level of pricing the margins will be reduced because the inefficiencies of utilization and managing peaks-and-troughs is augmented by additional resources which carry a cost which not necessarily gets compensated by the client. But when I move on a per transaction basis it is irrelevant to the client as to what resources are used to deliver as long as it delivers on the SLAs. And my ability to manage the peaks-and-troughs is a lot better because I have an incentive to drive efficiency to make that money which is on the table.

Mohit Jain: Okay. And so what you are trying to say is that on the margin side you may actually do better compared to a process where you are completely T&M driven?

Rajesh Subramaniam: That's right.

Mohit Jain: Okay. Second is on a top line, I think last call also we discussed there were some renewal which was coming up for this fiscal, has it happened, has it not happened, what is the status there?

Rajesh Subramaniam: That will happen after June, I will give you an update, and those are sit down conversations are slated for June.

Mohit Jain: Okay. And the billing is coming off for few quarters, so it just a normal seasonality or do you think this trend may continue from the top client?

Rajesh Subramaniam: When you say billing, are you talking about the absolute revenues?

Mohit Jain: Quarterly revenues from the top client.

Rajesh Subramaniam: Yes, so revenues have actually been flat on a constant currency between Q3 and Q4, but has actually been 2% higher but for the reason I had explained in the earlier part of the call. And from here you will see an upswing, Q1 normally traditionally seasonally is a weak quarter but despite the seasonality follow-up in our collections business I expected it to be flat

quarter from a revenue perspective which if you take a look at historical performance you will see a drop between Q1 and Q4 and we expect to maintain the levels of profitability too which will then demonstrate the margin expansion story I have been talking about.

Mohit Jain: And lastly, how good is BFSI vertical looking to you know in terms of FY16 outlook?

Rajesh Subramaniam: Very promising, UK BFSI is looking extremely promising.

Mohit Jain: What kind of growth rate can we expect from that particular vertical?

Rajesh Subramaniam: The BFSI vertical, I don't have a ready number to give you but based on the signed contracts we have, T&M will still be the largest vertical. But Healthcare will be fastest growing vertical followed by BFSI and then T&M, but my expectation is expecting a 12% to 15% growth in BFSI will not be unrealistic including the Collections business in North America.

Moderator: Thank you. Our next question is from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.

Deepesh Mehta: Sort of just continuing on the previous participant's question about top client, renewal, and relatively muteness in last couple of quarters, so just want to understand, I think you partly addressed about this quarter it is flattish in terms of constant currency and you partly addressed about the Digital strategy and leading to some volatility, but if you can provide some more details about what is happening there and by when you expect stability and growth coming back into top clients? Second question is on renewal part – in renewal if you can help us understand whether it is with the existing vendor the competition is happening or it is open kind of thing? Second question is about the guidance what you maintain about 7% to 8% growth for the FY16, how would be the growth pattern if we say let's say next four quarter because you indicated Q1 would be flattish from growth perspective, so next three quarter and Q3 is seasonally weak because of less number of working days. So if you can help us understand how the growth rate pattern would be for next year? Thank you.

Rajesh Subramaniam: Okay. There were many questions and lot of those answers have been given, so I will basically take the more important one which is around

renewals. As I said the renewals are progressing well. Two of our large customers we will renew, they are not going through a competitive process, so that should answer and give comfort on one end. The 7% to 8% growth, as I again gave you the math, there is about \$40 million of business which is getting executed as we speak and that will provide us the impetus, and we normally see in any year farming function, the CRM function business form existing clients also has positive surprises. So I am very confident of the growth rates that I had spoke to you about. And this is not based on pipeline conversions in the future but based on what we believe are the uplift we will get in the net of some of the shrinkages we'll also have, some setbacks but adjusting for that maintaining a 7% to 8% growth is absolutely tenable. And your question on that Digital large client what's happening, I secularly it is in the right direction, it is growing. I fundamentally believe you back those good customers who are doing outstandingly well in their native markets, it has a positive impact on downstream on all the partners that they work with and we are also beneficiary of the growth of our customer in their markets couple with the interventions we brought around the productize efforts that we spoke about. I hope I have answered your question to the best of what I could comprehend.

Deepesh Mehta: No, you comprehend it well, but only issue remains is about let's say \$35 million to \$40 million incremental revenue what we expect. For last two quarters I think because of the slippages or leakages what we have seen, our growth rate remains muted. So if you can help us understand if anything is coming for renewal which we might lose or we might have to compete against competitors on or you don't see that risk.

Rajesh Subramaniam: That's what I said, I am saying that with the renewals I have I am not competing, it is the statement I made that it is not going through a procurement process. And as far as the growth, it is a flattish growth but a flattish growth from Q1 actually implies a growth when the seasonality falls off. So the growth between Q1 and Q2 based on the sign ups that we see, I am not presenting a picture where the 7% to 8% growth is predicated on a stellar Q3, Q4, it is predicated on the growth path we see from Q1, normalized for seasonality there is a growth which should be evident in the volumes, Q2 we'll step it up further as the new center for the client that we won last year gets implemented in Eugene and you see in six months I have explained, when I say six months I am saying in the October to December

quarter the conversions from the new product development pipeline in the Healthcare Provider segment converting into revenues is the imperative we have, that is the unknown I have, but we clearly believe we have a reasonable chance of converting some part of that pipeline. So it is sigma of all these that I have explained will get us to the 7% to 8% growth and I hope I have answered your question now.

Deepesh Mehta: Yes, you answered. Only last question is about, what kind of FOREX hedge gain is sitting on the balance sheet?

Dinesh Jain: Hedge gain in the balance sheet is around Rs 53 crores.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from ICICI Direct. Please go ahead.

Abhishek Shindadkar: My question is regarding Q4, did we anticipate the loss of revenue at the start of the quarter or it was more towards the end of the quarter?

Rajesh Subramaniam: No, negotiations were happening at the start of the quarter but some of the actions, some of the ramp downs decisions that we took were in the middle of the quarter.

Abhishek Shindadkar: And just a follow-up to that, so just trying to understand what is leading to this reduced visibility for us in terms of client spending, if you can elaborate on that. Thanks.

Rajesh Subramaniam: I never said there was a reduced visibility on client spending, actually I believe that the demand environment is robust, Healthcare is growing superlatively well compared to the growth rates of the other businesses, the banking industry in the UK is doing well, they have significant treasures in meeting some of the cost-to-income ratio that they have committed to this street. The telco business in the UK, in the US is doing well and the media business in the UK are doing well. So there is no pressure on the demand environment as far as our businesses are concerned, decision making is taking time, some of the deal pipelines get clogged but these are delays are they are not impairments to the ability in terms of what is happening in the demand environment.

Moderator: Thank you. Our next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: Rajesh, just one question I wanted to ask, this Verizon account which you mentioned, by when do you expect it to get normalized like the way you guys were anticipating it to work?

Rajesh Subramaniam: We will take at least another three to six months, I will tell you why three to six months, the current operations in Louisville will stabilize in the next three months Amit, but in September we are growing with our second center in Eugene that was supposed to go live in July, early August but now it has been pushed out to September. So that will go through its own growth phase which will take another three to four months from that time. So Verizon as a full blow on account will reflect the growth in almost about \$40 million in FY16, but the true run rate of profitability will reflect only by March next year.

Amit Goela: And when you are talking of increase in margins, are you talking about it from the fourth quarter exit margin or on an average margin basis?

Rajesh Subramaniam: On an average, fourth quarter exit is normally the better quarter Amit, but from a full year perspective clearly we have enough leverages to improve margins between 100 to 120 basis points with some upside built in.

Amit Goela: Okay. And one last question, with your balance sheet getting better this year and with some cash which you have, would you be coming back on the dividend list next year in the current year?

Rajesh Subramaniam: That is our expectation, that is the conversation we had with our chairman today, and yes, hopefully if everything goes well, I cannot make any commitment subject to shareholder And board, but given how our operation in cash flow will build up, it won't be unreasonable to expect that.

Amit Goela: It should not be let's say more than about \$45 million of net debt or less by the end of next year?

Rajesh Subramaniam: Yes, so what we did as on March, another \$45 million will get repaid. There is some refinancing, there is some augmentation which we are talking about, a lot of things in the pipeline Amit, I will give you an update in the next 15 days.

Moderator: Thank you very much. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Rajesh Subramaniam for his closing comments.

Rajesh Subramaniam: Yes. Thanks everybody, thanks for your time. FY15 has been a mix bag year. We have had our set of challenges but we have also created the momentum for next year and I look forward to speaking to you in individual meetings, you can reach out to Ganesh or Dinesh or me directly, we can set up some time and can address any specific queries that have not been placed on the call today. So thanks for your time today, appreciate it. Bye.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Firstsource Solution that concludes this conference call. Thank you for joining us and you may now disconnect your lines.