Q4 FY2021 Earnings Call Transcript - May 12, 2021

CORPORATE PARTICIPANTS

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Mr. Dinesh Jain - President and Chief Financial Officer

Mr. Ankur Maheshwari - Head Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q4 FY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Maheshwari from Firstsource Solutions Limited. Thank you and over to you, sir.

Ankur Maheshwari: Thank you, Faizan. Welcome, everyone. And thank you for joining us for the quarter ended March 31st, 2021 earnings call for Firstsource.

To take us through the results and to answer your queries, we have with us today Mr. Vipul Khanna - our MD and CEO; and Mr. Dinesh Jain - our CFO. We will be starting this call with a quick overview of the company's performance, followed by a Q&A session.

Do note that the results, the factsheet and the presentation have been e-mailed to you, and you can also view them on the website, www.firstsource.com. Before we begin the call, please note that some of the matters we will discuss on this call, including our business outlook, are forward-looking, and as such are subject to known and unknown risks. These uncertainties and risks are included, but not limited to what we have mentioned in our prospectus filed with SEBI, and subsequent annual reports that are available on our website.

With that said, I will now turn the call over to Vipul to begin the proceedings.

Vipul Khanna: Thank you Ankur. Good morning everyone and thank you for joining us today. Hope you and your loved ones are keeping safe in these trying and almost surreal time. It's deeply distressing and painful to see the wrath of the pandemic second wave in India. In the last few weeks, almost every person I have spoken to has a story of either themselves or their loved ones been impacted. The IT/ITES industry, including Firstsource is no exception. Our top priority this time is the safety and support of our colleagues and their families. We have mobilized critical oxygen equipment, medical supplies, kits for COVID management at home, remote doctor consultations, hotel stays for isolation needs and a dedicated support desk for our colleagues. Additionally, we have put together a number of fiscal support measures to support our colleagues. And needless to say, we will cover the cost of vaccinations for all our colleagues. Right now, we are working with partners to secure access to vaccines. Finally, we stepped up our partnerships with grass root organizations to volunteer time, financial support and expertise for COVID relief.

Let me take a minute about the impact of COVID on our business:

In the last one month, we have understandably seen a higher level of absenteeism in our India operations. The situation on the ground is dynamic. As you know, some states have recently announced lockdowns and movement restrictions. We fully support these moves and hope these interventions can help to break the chain. Given our hybrid work environment and the onshore-offshore delivery mix, we don't expect a material financial impact unless the situation changes drastically for the worse and for a sustained period of time. Again, at this point, the focus is on our colleague's safety, health and emotional well-being.

Focusing on our results:

I am happy to report that fiscal 2021 has been a standout year for Firstsource, despite the challenges in our path. This was the year of many firsts - revenue surpassed the Rs 5,000 crore mark; we achieved a constant currency growth of 17.9%, our highest ever; we added 6,801 employees during the year, again, our highest ever. And needless to say, we enjoyed when our market capitalization hit the $1 billion mark. A big shout out to our Firstsource family for making this happen in this crazy pandemic year.

Summarizing our FY 2021 performance:

I am happy to state that we achieved better than our guidance. Revenues grew from Rs. 40,986 million or US$578 million in FY 2020 to Rs. 50,780 million or US$685 million. This implies a constant currency growth of 17.9%. And for this year, our operating margin came in at 11.8%, again, higher than the guidance that we had. We took a charge of Rs 1,151 million which is considered as an exceptional item. Excluding that, our profit after tax came in at Rs. 4,499 million. We will provide more details on this charge in a few minutes.

Let me do a quick roundup on Q4:

Q4 was a stellar quarter. Our revenues grew at 31.7% year-on-year in constant currency, and we clocked Rs. 14,628 million in rupee terms and US$ 200 million. For this quarter, the operating margin came in higher at 12.4%. The demand environment continues to be resilient and broad based. Our new wins momentum remains strong.

The solid performance during FY 2021 across all dimensions validates the growth framework we established over the last 18 months. Our sales wins are up, the operating margins are improving, our digital program is becoming more meaningful. And as an organization we are becoming more purposeful.

To reiterate:

We have been channelling our energy in three directions.

1. First, maintaining a sharp focus on our three core industry segments - BFS, Healthcare and CMT across North America and the UK. We systematically invest in building our capabilities and expanding our client base in the born-digital / new-age client segments of these industries. These include FinTech, HealthTech, Streaming and Digital media. We are encouraged by the progress thus far and the traction we are seeing with our pipeline conversions. We added 11 new logos in Q4 and 54 during the fiscal 2021.
2. The second element of our growth framework is modernizing our offerings, what we call as Digital First, Digital Now. We continue to make investments in developing capabilities, upgrading our platforms and strengthening our partner ecosystem. In FY 2021, we upgraded our Digital Intake offering for the health plan and health services business. We did a complete face-lift to the user experience of our healthcare provider platforms. And we added AI and ML capabilities to our Digital Collections platform. Our partnership ecosystem continues to strengthen. Industry leading solutions such as Upfront Health, UiPath, IntelliH, Uniphore, Zappix, etc., are now integrated in our solution as we keep marching further into the digital arena. We recently launched a BFS bot store starting with COBOTs for the mortgage sector. I am happy to report a marked change in the quality of our client conversations and the scope of projects we are participating in.
3. And lastly, building a scalable and agile organization to keep powering the growth momentum. We have made changes to organization design and invested in sales, solutioning, new markets and digital capabilities. I am intensely focused on sales operations excellence and account management discipline. As our sales and revenue growth has accelerated, we are now focused on building the next evolution of our delivery operating model. We are setting up COEs to strengthen our transition, training, and technology functions to better enable our operations. Our transformation playbook now has more muscle appealing automation and analytics. And I am confident that with this team and structure we are steadily moving towards our goal of being the top quartile growth leader in the BPM segment.

Now, let me give you some highlights and growth plans for each of our industry verticals:

Our Banking and Financial Services segment had a stellar year. For FY 2021, it recorded 59.0% growth year-on-year, 51.3% in constant currency terms. In Q4 FY 2021, the growth was 65.8% year-on-year and 61.5% in constant currency. BFS has been a strong growth driver in the last couple of years. All BFS segments have demonstrated good growth trajectory with mortgage leading the pack.

Let me spend a little bit time on each of these BFS segments:

The mortgage industry has benefited from the low interest rate environment in the last couple of years. The growth rates for both refinance and new home purchases have been at multi-year highs. And as expected, the refinance market is starting to slow, although home purchase financing remains strong. We expect industry financing volumes to taper during this new fiscal 2022. We have been preparing for this turn by adding new clients and scaling our services segment. In the last 12 months, we added 31 new clients in our mortgage business, which will continue to ramp into the new fiscal. Mortgage servicing could see steady growth, as we continue to sell new services to our existing client base. Based on these trends, we are confident of delivering a growth year for mortgage, though this growth will likely to be modest relative to FY 2021.

The collections segment started strong last year helped by the government stimulus programs in the US. However, with lockdowns and contraction in discretionary spends, the card industry witnessed a decline in spending, charges-off rates, and credit card delinquencies, all of which impacted the volume for the industry and for us as well. As vaccinations help reopen the countries, lowering unemployment rate and a revival of discretionary activities are expected to drive spend levels back to pre-pandemic levels. The other lever could come from government and institutions lifting the moratoriums, providing a tailwind for collections industry in the next year. Also, in the last 12 months, we have made steady progress in expanding our capabilities to the FinTech market, especially in the Buy Now Pay Later (BNPL) segment. This segment is amongst the fastest growing and potentially another attractive market opportunity. We are already working with two of the top three BNPL companies in the US and pursuing a healthy pipeline.

The UK banking remains resilient. We are seeing good volume growth from our clients across their product lines. Banks are rationalizing their physical infrastructure as consumers shift to digital. This creates additional opportunities for us to help our clients in the shift in new operating models. Furthermore, as the economy reopens, growth in credit card operations and contact center operations is expected. The UK mortgage market is also witnessing record growth driven by low interest rates and government policy action. We are well placed to capitalize on the volume growth emerging from the post-Brexit transition, client's need for cost efficient operations and core economic activity revival.

Let me shift to Healthcare:

Healthcare segment overall had a muted year. For FY 2021, the segment was flat year-on-year, or de-grew by 4.1% in constant currency. In Q4 FY2021, the growth was 7.8% year-on-year, and 6.8% in constant currency. Our Health Plan and Healthcare Services (HPHS) business witnessed a strong turnaround. This part of the business has delivered solid growth despite lower claim volumes in the industry. We have secured a number of marquee clients during the year and have scaled our platform-based offerings in the market. In this quarter, we added three new clients. And now service 6 of the top 10 health clients. We continue to make inroads in the fast-growing Telehealth and remote patient monitoring market. And we have recently partnered with a partner with an emerging remote monitoring platform to extend our offering for this segment. We expect the growth momentum to continue for HPHS segment, supported by a revival of claim volumes, the scale up of our platform-based solution and by adding in growing new clients.

Healthcare provider had a soft year. The volumes remained low through the year as patients deferred their elective treatments. The progress around vaccinations and the easing of public health emergency in the US should help to drive a steady recovery in volumes, paving the way for growth in FY 2022. We are encouraged by the growth of volume we have seen in March and April, as late as April last month. PatientMatters integration is going well. We have already started to see green shoots in terms of a strong pipeline for cross selling our platform services to PatientMatters' clients and vice versa.

In Comms, Media & Tech, that segment is scaling well. It grew 2.2% year-on-year and de-grew 4.6% in constant currency in FY 2021. For Q4 FY2021, the growth was 23.2% year-on-year, and 15.3% in constant currency. If you recollect, this segment had a weak Q1 due to lockdowns and our top client's decision to focus on selective priority services only. We are pleased how this segment has turned around from those lows of Q1 FY2021. Fourth quarter has been a strong quarter for CMT driven by growth in our top clients and ramps in recent wins. Our focus now is to scale the US business and build referenceability there. The pipeline build-up is encouraging. This segment should continue to perform well in the FY 2022.

And last, our Diverse Industries in Q4 FY2021 declined 2.8% year-on-year and 9.9% in constant currency.

Now, let me give you some context to the exceptional charge of Rs. 1,151 million that we have taken to our P&L. In 2018 April, we had entered into a strategic partnership agreement with a leading mortgage businesses group to help accelerate the growth of our then nascent mortgage business. We agreed to a structure wherein in a graded manner they could accrue a small, minority equity position in our mortgage business based on the revenue realized by Firstsource. This partnership has served us very well and FY 2021 was the breakout year. The mortgage business nearly doubled in size in that year. In addition to meaningful revenue from the relationship, it accelerated market share gains and afforded us the scale to harvest the macro tailwinds of the last 12 months. They have requested for an early partial monetization for their accrued options, which are due in calendar year 2023. We are currently in discussion with them and we will update you once we conclude. This charge corresponds to the valuation of options we had allotted to them. Dinesh will also talk about this in a minute.

Finally, coming to FY 2022 Outlook:

Financial year 2021 has provided a very strong platform and momentum going into the new fiscal. While there are still a lot of macro uncertainty out there, considering the momentum we are witnessing in each of our segments, we are guiding FY 2022 revenue growth to be in the range of 15% to 18% in constant currency terms. This guidance encompasses a solid pickup in our healthcare business, continued strong growth of CMT and the BFS business ex mortgage. And as I mentioned earlier, growth trajectory in mortgage business is expected to moderate. As I have shared in the past, our strategy is to build overlapping growth waves to deliver sustainable industry leading growth. This approach and the diversity of our portfolio is playing out nicely. For FY 2022, our operating margin should be in the range of 11.8% to 12.3%, an expansion of up to 50 basis points year-on-year. The operational rigor across our businesses will drive this expansion; and at the same time, will be channelled to fund continued SGA for building new capabilities and scaling our sales and delivery ecosystem.

With that let me hand over to Dinesh to cover the financials.

Dinesh Jain: Thank you, Vipul. Firstly, I would like to echo Vipul's sentiment and wish that each one of you and your dear ones are able to tide through this crisis unscathed.

Here is a quick summary for Q4 FY 2021 and full fiscal year FY 2021 performance:

Revenue for Q4 came in at Rs. 14,628 million or US$200 million. This implies a year-on-year growth of 31.7% in constant currency and 35.4% in rupee terms.

For the full year, the revenue grew at 17.9% in constant currency to Rs. 50,780 million or US$685 million.

On the margin front, operating margin which is Earning Before Interest and Tax came in at Rs. 1,809 million or 12.4% of the revenue for Q4, which shows the 54.9% growth year-on-year and implies a margin expansion of 150 basis points. For the full year, operating margin came in at Rs. 5,979 million or 11.8%, which again implies a healthy margin expansion of 95 bps for the year.

Profit after tax excluding the exceptional charge came in at Rs. 1,309 million or 8.9% of the revenue for Q4 and Rs. 4,499 million or 8.9% of the revenue for FY 2021. This again shows the healthy expansion where year-on-year growth for Q4 is 42.9% and 32.4% for year 2021. After considering the exceptional charge, the PAT came in at Rs. 467 million or 3.2% of revenue in Q4 and Rs. 3,617 million or 7.1% of the revenue for FY 2021.

The Exceptional charge in the P&L correspond to the current valuation for the equity option granted to a large customer group in our mortgage business. Vipul has already provided the rationale for this item. Option accounting is governed under IND AS 102 or IFRS 2, which is called Shared Based Payments. Option awarded to the counterparty basis the terms have been treated as a cash settle option for Firstsource books of accounts. The key factors that have led to the increase in charge this year are:

- Significant growth in the size and valuation of our mortgage business, which you have already seen in the commentary which Vipul talks about, and which has resulted in a considerable increase in the value of the option.
- With higher than anticipated revenue realized from the relationship, that equity option accrual got firmed up this year and also increased their entitlement compared to the last year.
- The counterparty has also requested for early part monetization of the option.

This led the reasons which I talked about, the two, three reasons which have increased the charge in the P&L to the extent of Rs. 1,151 million for the year and Rs. 1,099 million for the quarter.

In the FY 2021, we generated Rs. 8,921 million cash from operations and our FCF was Rs. 7,225 million. After adjusting for the CAPEX of Rs. 1,696 million, which is comparatively to last few years is much higher due to the higher investment in the tech infrastructure and employees and our facilities which have resulted into this. And the advances for customer was also Rs. 835 million, which we talked in the last quarter.

In Q4, we have generated Rs. 1,506 million cash from operations. Our closing cash balance as of 31st March was Rs. 2,199 million, which is after repaying Rs. 2,672 million of our short-term borrowings, paying dividend of Rs. 2,038 million and utilizing Rs 950 million for acquiring PatientMatters.

Net debt as of 31st March stands at Rs. 3,846 million or $52.6 million, which is compared to the last year number of $86.2 million.

Our DSO came in at 52 days in Q4 versus the 53 days last quarter as well as I think the sharp drop from the last year 63 days. And you are all aware that last March was the challenging one from the COVID point of view. But I think this year and this quarter specifically, we are able to recover all of the money which slightly got delayed in the last year March.

Tax rate for the Q4 and the full year was around 16% for FY 2021. And for FY 2022, we are expecting it should be in the range of between 17% to 19% for the year.

On our forex hedging, we have coverage of GBP 63.8 million for the next two years with the rate ranging from Rs. 102 to Rs. 115 per pound. Dollar coverage is at US$ 89.6 million with average rate of Rs. 76.7 per US dollar.

I am really proud how the businesses have shown resilience and delivered growth in these times. The teams have carried out their responsibilities exceptionally. And I think credit really goes to the whole team within the Firstsource. With this, we can open the call for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Congratulations for the solid execution through this year. Vipul, just wanted to get your thoughts around the healthcare vertical. You said that you have now managed to get 6 of the top 10 health plans in the US If you could talk in detail about what's driving our success there in terms of competitive intensity? That's question number one.

The second question was with regards to the shift in terms of more offshore delivery that we have seen through this year. How much of it essentially is a function of the macro trends from Brexit and thereby the impact on labour mobility in the U.K., if you could talk about that? Thank you.

Vipul Khanna: Thanks, Manik. Good to hear your voice. Healthcare on the HPHS, which has Health Plan and Health Services, you know that we had completely rebooted the team, we have added across the value chain – leadership, sales, solution, technology and delivery to kind of, as I said, reboot the basics of how we are doing the business. They bring a set of relationships which has kind of allowed us to have conversations. We have taken our existing capabilities in claim processing as well as the digital intake platform, revamped it, completely repositioned it relative to competition in the market. So those were our initial stalking horses to go out and open client conversations with a very targeted, hey, we do these things, here's our offerings. That's sort of the first step.

Second, the sheer agility that we built up and the responsiveness that we built up in that team in that business, and the relationships they had, as the world went through COVID some of the clients needed short-term support, they needed like, right away I need this, I need that, we kind of jumped at it and delivered on it. And that has kind of allowed us to kind of open some relationship as well as bed down some of the earlier relationships into our next level of strategies.

And third, as remote patient monitoring and Telehealth took off post-COVID, we jumped into that new segment. We got a bunch of new client wins way back, if I remember, in Q2 of fiscal 2021, and then we continued with some gains in Q3 and Q4. And we continued to kind of make sure that we are very out there in terms of our thinking. It's not just human service but taking a lot of technology there as well. And given that’s a very rising demand curve, it kind of brings us squarely in strategic conversations with our clients. So you are right that it's a very well served market, but it's such a giant market with so many sort of niches, I think there's a tremendous opportunity for us to continue to grow in that segment through these offerings that I talked about as well as a couple of newer that we are exploring in the horizon.

The second question you had about offshore delivery, and you mentioned macro trends. Did you say broadly macro trends or were you referring just to U.K.?

Manik Taneja: So I was more interested about what you would be seeing on the ground in the U.K., given the Brexit and thereby the impact on labour movement, especially from low cost European countries.

Vipul Khanna: Okay. So yes, Europe has been a driver in increasing our offshoring component, and so has been the BFS and the mortgage business. These have been the 2 growth drivers for us, offshore growing stronger in this year relative to the past. I think partly, it's also a function of talent availability in the markets, both these markets. I don't think per se Brexit has played a role in labour shifts from on to off, it's just the core strategic desire of some of our clients. Earlier, it was also partly UK, India balanced when COVID had just about started. But I think over time, especially with the banking sector in U.K., we are seeing more strategic outlook towards offshoring a little bit starting to rise up. And that's reflecting in the gains that we are making in offshore. That's how I would characterize the movement in offshore.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Congratulations on strong performance. Firstly, on this one-time thing that has happened, so if you could quantify the kind of revenue we might have achieved on such contracts in the mortgage business, and what is the total valuation for the business as a whole that we have assigned to the subsidiary? Because the value that we are looking to pay looks like a very high number. So any clarity on that, if you could share.

Vipul Khanna: Yes. So, look, I think the details of this contract, I will share just to run them very quickly again. This is a large customer group, we have given them a graded equity structure, right, linked to the spending. The contract has performed really well. It has exceeded our expectation and the industry tailwinds have helped. They are entitled to the structure provided for equity to them anywhere from 0%to 15%. And there are certain floor boundary conditions based on revenue threshold, and it caps out at 15% if they achieve or exceed our most aggressive scenario. So, basis the runway that we have now, as Dinesh said, we followed option accounting, we valued the business and assigned a value to the options that are accrued to our counterparty. The contract, we are currently in discussions with the client. The contract provides for certain exit optionalities. And when that happens, there will be a fair market value exercise by an independent body at that point in time. And that will kind of determine sort of how we finally settle it but right now, for March 2021, consistent with past years, we value the options based on the current run rate spend of this relationship, as well as our overall mortgage business.

Rahul Jain: So, this number has come at a peak calculation of 15% based on current valuation?

Vipul Khanna: That's our estimate at this point in time, although the same period continued, right. So, this is our estimate going into the future. But yes, based on the current run rate we have valued the option that’s closer to the peak equity option accrual for them.

Rahul Jain: And you said that there could be a partial early exit, or this is a complete exit? And was that number CY 2023 what you said, or I heard it wrong?

Vipul Khanna: No, what I meant was that in the original agreement that we have, there is a spend period which is the eligibility period. And the monetization is expected in FY 2023, 2024, starting from April 2023 then some of the monetization options kind of begin to accrue. And what we are discussing now with our counterparty is that they have requested for partial monetization now, so we are in the midst of kind of doing all that, and there are commercial negotiations going on. I will come and update you as soon as we conclude with them.

Rahul Jain: Okay. Got it. And secondly, if I may, from a guidance point of view, since you say that we are going to see some growth in the mortgage business, and the kind of run rate we are at. And in general, commentary looks strong across other business segments. So, in that light, the guidance that we see looks like a conservative one. So, is that what you also see given the uncertainty, or this is the realistic thing which we think of as of now?

Vipul Khanna: So, we see strong growth in healthcare. I see good, continued growth in our CMT portfolio. Our North America CMT portfolio is new, we are still building it out, it's not material, but it's our intention to stay focused and build that out. Banking and financial services, our UK portfolio, our collections portfolio, is, I think on a reasonable wicket, decent momentum. Mortgage business obviously is a bit more sensitive to interest rate movements and stuff. We have seen sort of different projections in the marketplace, and currently we started to see some volume softness in the market, especially for refi. So, we have modelled it such that we kind of see reasonably where we could end up in the next 12 months in our mortgage. And that's based on sort of our read of the interest rate movements where the volume will lie. If this trend continues longer, there might be a little bit more upside, but at this time, this is our best estimate on where the mortgage business could end up.

Rahul Jain: Got it. Thank you for the explanation and congratulation on great execution and great outlook. All the best for the coming quarters. Thank you.

Moderator: Thank you. The next question is from line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, I wanted a little more detail from the industry outlook that you guys are currently operating in. And also, with respect to a vertical CMT and within that perspective, top client. So how do you see things moving there? This account obviously was more or less stagnated for few years, and now we are seeing some ramp up. So how should we read it? Do you expect some more growth to continue there? Or do you think that we will get back to that, let's say, pre COVID time have more or less stable revenue there and then ramp up of new accounts in the vertical?

Vipul Khanna: Your question is, Mohit, all related to the CMT vertical, right?

Mohit Jain: CMT and broader outlook that you guys are seeing because I think you are quite positive this time on the US market. So, what is your reading of the whole BPM thing, because in our case, the growth outlook in the last two years, it has completely changed for Firstsource. So, such high growth numbers, is it more driven by overall positioning of the company within the BPM market? Or do you think that, in general, BPM market is doing very well compared to some of the other segments of the industry?

Vipul Khanna: Understood. Okay. All right. Let me answer first the large customer question that you asked. So, clearly, way back in sort of FY 2020, there was a portfolio reallocation, and we had seen a downturn, right, and then we had stabilized towards March of 2020. Then COVID came and Q1 was hard hit because of clients had decided to do only essential services. Since then, we have seen the volume has steadily come back. And as their business has taken different direction, right, as they have adapted to digital and stuff like that, we have seen our clients have more volumes, and we have played a good part, I would say, almost like an outside part in helping their new business growth and the diversification of their business. So, we got more than our fair share of the growth there.

And as I mentioned, even in Q3 we were back to pre-pandemic levels, and Q4 has kind of built up on that. I think we are at a good place as far as our share of wallet there is concerned, as far as the top account is concerned. I do not expect material growth from that one, we will see moderate growth in the portfolio, some adjustments up and down. But I think we are at a good run rate as far as that account is concerned. And clearly, our focus is to open new accounts. We have had some very good wins in digital media in the U.K., we are starting to build that pipeline in the US And with them we are driving hard on the tech segment, as far as CMT is concerned. In fact, while it's a very small number, our North America CMT has doubled in size this year, although from a small base, very small base. So, I am hopeful, and I am spending a lot of time fine tuning our strategy into our client action and stuff so that we can build momentum onto the CMT, especially on the North America side.

On your FSL question relative to the industry. And it's a good thing or a bad thing, you asked the question. But overall, as I have been saying, my intention has been to build overlapping waves of growth, right? BFS was going strong, we kind of put our foot down, put a lot of investments sales focused, solution focused, delivery, investment ahead of time so that we could kind of get the growth which is there in the market. But at the same time, we were building healthcare. And now, if mortgage moderates out this year, healthcare is starting to pick up and we will see strong growth from healthcare in FY 2022, if all goes well. And then hopefully, by that time, CMT starts to kind of gather momentum and will start to pull its weight towards the end of the year. So, the intention is to build sustained growth by having people or industries at different levels of growth and different levels of investment and needed cycle, so to say.

We will see sort of what the output comes out from the industry for FY 2022. But at this stage, it's kind of uneven across industries, depends on whether you are playing in a mature industry or a growth industry. And if you are playing in a mature industry if you have disruptive solutions or not. And my focus is to make sure that we kind of try to play in disruptive places, and not play where we have to go just play on price, right. In some cases, we are the challenger so we kind of stick to our strengths, or we build on our leadership positions. So, we are trying to kind of go to places which are more tailwinds rather than headwinds and competitive intensity is high. I could characterize that part of our strategy, which has driven good growth for us in FY 2021, and hopefully continues in FY 2022.

Mohit Jain: And sir, just a follow-up, if you could spend like two, three minutes on this digital media offering which you are talking about. So, what are we trying to do there and what kind of clientele do you expect in FY 2022?

Vipul Khanna: Sure. So, when I say digital media, this is traditional media, your traditional print, etc., which is now moving to digital, right. Whether it's digital access of content, and as well as how they interact with their customers, right. So in that segment, as that industry moves, we have had some early good wins, I think we have a good operating model now. And it seems to be replicating across different publications. And I think right now we have built a small but consequential pipeline in the US as well, taking our UK capabilities into the US market. That's one manifestation of digital media. And there are some other new segments that we are evaluating linked to sort of what is coming up good in this pandemic era. So streaming, for instance, has taken off as you have seen, going from cable to streaming. We have good strength, given our large relationship, both in UK and US in that, that's one area we are focused on, streaming. And very early days and looking at things like what could be our play in the ed-tech segment, right, as education goes online. But it's still early days, very early days for that segment. Those are some of the segments that we are focused as far as digital media and digital consumption is concerned.

Mohit Jain: So this could be which service line? This will not be contact center, right?

Vipul Khanna: It could be. Contract center is one part of it, it may not be sort of contact center, it could be multi-model, multi-channel with a lot of automation in it. But our intent is to go beyond this space and kind of talk about holistic customer experience, content delivery, response to content, etc., etc. so that we are able to make a meaningful dent into their adoption rates, into their revenue rates, and not just a cost efficiency provider.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Emkay Global, please go ahead.

Dipesh Mehta: Congrats on strong operational performance. A couple of questions. So, first question is about the healthcare provider side. If I look, your revenue run rate is roughly 20% below your pre-COVID peak level. Considering normalcy returning in US market, by when you expect that full recovery, and then on top of that the growth playing out? If you can throw some trajectory, how the recovery is likely to play out?

Second question is, the number of clients which we added into born digital segment in Q4 and maybe in FY 2021, if you can provide some colour about kind of client, what kind of services we are offering. So how we are building our tech business?

And third question is related to exceptional items. So, some clarity, if you can provide incrementally than what you have already said. Our first is about, when cash flow related intake will come out, if you can quantify and if you can provide some timeline? Our second question is about the disclosure perspective. Now I could not find anywhere, it was mentioned in contingent liability perspective. So, if we can provide some perspective there. And the last thing is, any incremental impact you expect, considering the nature of contract. You said 15% we have fully factored in, but let's say if revenue grows further, is there any further liability or potential liability coming into our P&L? Thank you.

Vipul Khanna: Okay, good. Second question is about born digital, third was exception, first one is about healthcare, right, when do we expect to go to pre-pandemic?

Dipesh Mehta: Yes.

Vipul Khanna: Let me try and start with that. So Dipesh, provider, we are starting to see, at least the hospital visits start to pick up in March was good, April kind of held off to that level. The other variable which impacts our revenue in our healthcare provider business is because we are in Medicaid eligibility, or eligibility services or patient access, there is a fact of the volume of hospital visits. The second is, when you see approval from the paying party, which in a majority of cases is the government or Medicaid support. Now, given the public health emergency in the U.S., that equation also changed because a lot of people were on compulsory enrolment and stuff like that. And then some of the states were taking longer on approvals and inventory and stuff like that because they were distracted, and their budgets were prioritized somewhere. So, these are the two variables, hospital visit volumes and what the state government stands on stuff is there, right. Those are the two variables which determine.

I think from a volume standpoint, if April-May can hold off, and there isn't another wave in the U.S., the January-February peak of cases has come down now substantially. And with vaccinations in good swing I think there is stability there. But there is still that concern about what happens if there is another wave. That's one variable to play out. And then at this point in time, the expectation is that the public health emergency, which is a government promulgated sort of condition, last until July. So, at this stage we know the feasibility in July and then we will see how they kind of react after that July. But our sense is that if current conditions hold, it will continue to pick up in Q1 and then sort of start to get to a decent place by Q2, as far as provider is concerned.

Second question on born digital segment. As I mentioned, we are looking at newer age of born digital across the three industries that we play; FinTech, given BFS is our biggest verticals, Fintech's has been a good source. A lot of offerings in our arsenal we have taken to fintech's, both on collections as well as the servicing side of it. A few of the born digital mortgage players are also part of our portfolio. And as I talked about with new segments originating like BNPL, buy now pay later, which is kind of the next form of payment evolution to card, targeted towards the more younger population who is not as card friendly so to say, and those market has kind of really taken off in terms of spend. Those are the focuses that we have on the fintech side of it.

As far as health-tech is concerned, this is more a play for HPHS and we are focused on remote patient monitoring or companies or arms of health plans which are about tele-health and how do they use IoT and other devices for remote and continuous patient monitoring. That's our focus. And we have a couple of good wins in that sector. Again, it's a nascent sector, but growing very fast. And everybody, including us, is trying to find the operating model to support those players. The one derivative of that is, because we have a lot of expertise in the provider side, right, on how to build on behalf of hospitals and recover from health plans, as well as from government, we are taking that expertise and trying to extend into the med-tech segment, right, the med-device segment. Same capabilities but do it for med-device providers as opposed to the hospitals. Again, nascent efforts, we just built in a very small team and it will take us, obviously, a while to kind of build out that capability. And then CMT, obviously, is a function of the streaming, digital media, and pure-tech companies, right, who are either consumer or enterprise tech. Again, something which is our aspirational focus, and we still need to get some meaningful traction in the last part of the consumer and the enterprise tech that we want to get into.

On the on the exceptional items, on your question about the cash flow impact. So, look, as I mentioned, as per the contract the cash flow is envisaged for FY 2023-2024. But clearly, we are currently in talks and we might go to a place where we do partial monetization sooner. So, the cash flow will ultimately depend upon the fair market value of the business at the time of exit or exits. And also, the fund equity percentage based on how spends kind of play out over the term that I mentioned. And the FMV, as I also mentioned, will be done by the independent valuations. These factors will determine the quantum of cash flow and the timing of the cash flow. And as I said, right now, this is commercial conversation so let me leave it at that, and then come back and update you guys as soon as we can close that.

Your question was, will there be further liability? So, right now we have booked the amount of Rs 1,151 million. Given that the part of the options might extend over to next year. We also envisage another something south of US$ 2 million as part of the current valuation exercise, which will come in FY 2022 and which we have baked into our estimates for FY 2022. That's our best estimate at this point in time based on the run rate of the spend, as far as liability into the P&L from the option accounting basis is concerned.

Dipesh Mehta: Sorry, I missed the last part, you said $2 million extra maybe possible, that's what you are indicating?

Vipul Khanna: Right now we have estimated that for FY 2022, because these options extend up till the end of March 2022, we anticipate that we will take the charge of $2 million in FY 2022, and that's baked into the margin estimates that we have shared, the 11.8% to 12.3% that I laid out for the guidance in the year.

Dipesh Mehta: Understand. And on the first question, can you tell me the number of clients added? Because I think earlier you indicated near-term our focus is how many clients we add, and then revenue trajectory. So, if you can help us with number of clients adding in tech segment?

Vipul Khanna: The number of clients, okay. I think the number is closer to eight or nine. Ankur, am I in the ballpark?

Ankur Maheshwari: Yes, Vipul. Across the vertical we would be around that number.

Dipesh Mehta: Yes, and the last question if you can answer. The third question is on the contingent liability and related disclosures, so if you can provide some perspective.

Vipul Khanna: So as Dinesh said, since this is option accounting, and that’s cash settled, there is no need to show as contingent liabilities, considering cash settlement at this point. Dinesh, anything else to add on that.

Dinesh Jain: Yes, because we already accounted as option liability, so there is no need to be showing as a contingent liability in the past also, because always option accounting was that. And there is no need for a contingent liability.

Moderator: Thank you. Next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: So, my question is on exceptional item. So one is, I just want to clarify putting together everything you have said so far, that the Rs. 115 crores plus the $2 million for FY 2022 reflects the full 15%, which is the max equity dilution in our subsidiary that the client is entitled to. Any adjustments to this valuation would therefore come from one of two sources, A) a better than expected performance in the mortgage business, which would obviously raise the equity value of the subsidiary? Or B), a different calculation on the part of the independent valuer for the option? And I am assuming B is not very likely because you guys have a pretty strong finance team and I am assuming they price the option correctly. Is my understanding of this correct?

Vipul Khanna: The color I would add to that, Pavan, is that, clearly, yes, the performance of the mortgage business will determine that. Second, we have done option accounting based on sort of our assessment of the business, right, our valuation. Clearly a relevant independent valuation, a more holistic exercise, there might be some adjustments coming out of it. And third, these are bilateral commercial transactions as well. So, we will see how that plays out. That could play another factor in sort of where we end up in our bilateral agreement with the client.

Pavan Ahluwalia: But the client is entitled to a certain amount of equity, right? The only bilateral thing you can negotiate and you could mutually agree on the independent valuers, so the bilateral transaction would only favour you if they are requesting an early monetization and they take some haircut in return for it. Is that correct?

Vipul Khanna: Also, sort of the relationship and how the future will play out, right, that will be the other factors.

Pavan Ahluwalia: Got it. So you may say, look, if you want early monetization, commit to xx levels of spend or something like that?

Vipul Khanna: Yes. The only hesitancy, Pavan, I have is, since we are in the midst of sort of conversations, I am happy to come back and talk a little bit more than that once we conclude the commercial tranches over there.

Pavan Ahluwalia: Okay, that's fine. So let me then get more to I think what shareholders are really more curious about is the spirit of this agreement. I noticed it was done under your predecessor, but you claim that this was actually a good deal for the company. Am I looking at this right way when I say, look, let's say this Rs. 115 crores or Rs. 120 crores or Rs. 130 crores, I should look at it as kind of CAPEX needed to enter the mortgage business? That's one way of looking at it. So basically, say, look, whatever CAPEX we did on mortgage, which has given us $30 million, $40 million of operating profit this year, and probably a little bit less than that last year, that was basically earned by putting up this much CAPEX. And obviously, future operating profits also get credited to this CAPEX, because it's a one-time thing. Is that the way you are looking at and saying, look, in hindsight it was a good thing, because we were zero in this business earlier, it enabled us to enter. And in as little as two years, we were more than recovered. I mean, just even if there was a shut down in the mortgage business, today, the IRR on this investment would look pretty attractive. Is that the angle you are coming from when you said it's been a good deal for the company?

Vipul Khanna: So, look, in our industry, track record across industry, and I have done it in the past as well, when you have either a young sector or a new sector, you either do an acquisition, you have a strategic agreement with an anchor customer or you do a carve out, right, where you buy over somebody's captives and operation centers, those are primarily the three modalities of accelerating your presence in a specific segment. So directionally what you are saying is, is correct. Our intention, obviously, was to kind of build a meaningful business, get scale and referenceability, and kind of build a business for the long-term. And I think that theses have played out well, we have added a number of clients, we were ready when the tail winds came. And we are in a place where we think we can continue to grow this business strongly in the future as well. Yes, that's the only colour that I would add. But directionally, your thesis is correct.

Pavan Ahluwalia: So, I think the only thing I would add to that is, when you go and pay for a contract or incur CAPEX for a contract or make an acquisition, that is immediately visible to shareholders ex-ante. This thing is unfortunately visible ex-posted. Can we think of possibly you guys disclosing ex-ante whenever there are these kinds of options embedded in either Firstsource itself or any of its subsidiaries? And could you let us know, are there others similar contracts you signed with these sorts of options that may materialize in future? Because we totally understand that it's necessary, right, and we encourage you are doing it, because you have to think very creatively in order to be able to grow in this industry, and flexibility and dynamism and structure in contracts is a key growth lever. And you have certainly seen that, done very successfully at Cognizant and we can see the results we are bringing that approach to Firstsource. But in terms of just shareholders' understanding upfront, can you give us a sense, is there other stuff like this that we should expect going forward? And if there isn't, then in the event that you were to enter into such agreements, is there a way for you to just flag it to us in advance?

Vipul Khanna: Yes. So Pavan, there is no other such structure deal or strategic agreement besides this across any of our businesses. This one, as opposed to our largest client, which we had talked about in 2016, that was a different structure. There was an upfront money spent and there was an MRC. This structure with the mortgage client is more like an earnout structure, right, it's more like an entitlement structure rather than a commitment structure. And as I said, 2021 was the breakout here where the spend came through, the business grew on and so on and so forth. So that became material. And we were doing earlier, it was not material. When we did the deal, mortgage business was like \$30 million out of a company which was about \$540 million, \$550 million at that point in time, so it was like 5% or 6% of the business. And this year is where it kind of broke out and we kind of disclosed. But I think your point in terms of better going forward.

Pavan Ahluwalia: Yes, because I mean, this is how doing deals like this, doing deals like Sky, this is how you grew like 15% to 20% in an industry that grows at 10%, right? So there is no way that you are going to be able to outgrow the industry sustainably, unless you are one of the most dynamic contract structures out there. So I think as long as this is all disclosed upfront, it just becomes much more transparent.

Vipul Khanna: Yes, fair point.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Congrats for a good set of numbers. Just one advice or comment on what has been this previously, regarding the disclosure. Vipul, after you have taken over, we have been consistently the growth trajectory changing, the quality of growth becoming very good, you know, last eight, nine quarters ever since you have taken charge FSL has completely changed the character as a company. And obviously, the stock is still undervalued, it's getting slowly rerated, we don't want these type of surprises to derail that process of getting due rerating, which is there for FSL. So I would just again say that we have to be very clear in referencing in terms of all these disclosures, it should not come as negative surprise for us.

Vipul Khanna: Yes. Sachin, point taken. But as I said, right, in our judgement, when it became material, we disclosed it, and we have kind of given even the forward-looking view. But point taken.

Sachin Kasera: Second question is, now we have figure out something in terms of the capital allocation policy for the next two, three years, how are we looking at it?

Vipul Khanna: So the capital allocation policy remains the same. We think given the sectors and sub-sectors we operate in, there are a number of interesting areas where we want to build capabilities and acquisitions is a very viable strategy, PatientMatters was a small example. We have a list of priorities across segments where we want to grow into acquisitions. So that's one source. Clearly there is regular CAPEX. With this expansion, we have had to spend a lot of money in technology and less so on centers in FY 2021, but we will pick up as far as contracts are about the normal, not all the way that will take up on physical infrastructure as well. And clearly, given my focus on digital, the platform there, the partnership, etc., becomes the other part. And then finally, we have a decent dividend record and we hope to keep that. Typically, in these three, CAPEX, acquisitions, and dividend, we hope to keep an equitable mix while generating healthy cash flows to meet these three needs.

Sachin Kasera: And needless to say, your guidance doesn't bake in any acquisitions that you do?

Vipul Khanna: At this point in time, the growth and the margin guidance we have given has obviously the PatientMatters' full year impact, but it doesn't have any significant acquisitions breakthrough.

Sachin Kasera: Sure. Just one question on the tax front for the CFO. Dinesh ji, if you could tell us what is the tax rate we are seeing for FY 2022 and FY 2023?

Dinesh Jain: So, I think it should range between, current year we are looking 17% to 19%, and it may be slightly up in the next year, because I think as you know that new SEZs have been already over by FY 2020, so some of the SEZs will come at the taxability for 50% in FY 2023. So I think I will put another 1%. But we can range between 17% to 20% for next two years.

Sachin Kasera: Just one last question on the return on capital because of this high amount of intangibles and goodwill that we are carrying, our return on capital continues to look a little lower. So in between, we were evaluating that as an option to maybe take some form of write-off. So any thoughts, any problems further on that? Because our balance sheet has become much stronger in the last two or three years?

Dinesh Jain: I don't think we can take a charge because the valuation which we evaluate every period, from the goodwill impairment point there is no case due to the impairment. Yes, in the past, I think at the board level it got discussed, but as of today I don't think we are discussing anything of that nature. But your point is valid that our balance sheet has big intangibles and some point of time we need to look. But as of today, really we are not looking any of those and there is no response at a goodwill from valuation front.

Moderator: Thank you. The next question is from the line of Shraddha from AMSEC. Please go ahead.

Shraddha Agrawal: Just one quick question, how big is the mortgage business in terms of revenue run rate for us now?

Vipul Khanna: So, we have kind of nearly doubled, we are closer to closer to $200 million per annum in that.

Shraddha Agrawal: And I am assuming we do the entire US mortgage business through Sourcepoint, so would it be right to assume that Sourcepoint revenue would be also in the ballpark $200 million range?

Vipul Khanna: Yes, that is the entity in which we do the mortgage business.

Shraddha Agrawal: Right. And one thing you said that you have kind of built in the $2 million impact into your margin guidance for FY 2022. But we booked this as an exceptional item in FY 2021. So would we be booking in the $2 million hit as an operating expense in FY 2022? Just want a clarity out here.

Vipul Khanna: That's correct.

Shraddha Agrawal: Okay. And I am not sure if you have given any indicative number on the CAPEX plan for FY 2022.

Dinesh Jain: CAPEX plan, I think last year we spent almost $20 million. Current year again we expect that it would not be around $15 million but around $20 million the CAPEX will be, because we still have to invest in the facilities as the people will start coming back to the offices. So Yes, there will be a CAPEX still around $20 million.

Shraddha Agrawal: Sure. And just one final bit from me, Vipul. Could you just give me the puts and takes for margin guidance for next year? And given that some work from home normalization would happen towards the second half of the year, and some cost might come back, so what are we baking in terms of whatever guidance of this expansion we are talking about? So what are the percentages for that?

Vipul Khanna: Sure. I think you have identified one, we will see a percentage return to work. And obviously, our growth last year was strong, and we will have to catch up on some of the capacity, as some of the capacity comes back to work from office from work from home. Prashant has been building up his team, our COO has been building up the team and capabilities working with every business. So we expect an element of operational excellence and operational resilience which kind of gives us some more gains as far as delivery cost, etc., is concerned. So that gives us some takeout's there. And then, we will continue to make SGA investments into new capabilities, both sales as well as delivery and digital. Some of the gains that we make from operating excellence kind of goes there. And thirdly, while we are still building the businesses on platform side, clearly those are higher margin businesses, albeit they are a small portion of our revenue, they are higher margin businesses once we get to scale. And in general, we are starting to take a little bit more higher watermark on the kind of deals we want to do, especially onshore. So those are the factors in terms of increased costs, etc., etc. labour market is tight, but getting to be tight in U.S., we will see how UK kind of plays out in the next few months. So those are some of the puts and some of the takes I mentioned from our continued investment in SGA and a digital business.

Shraddha Agrawal: Right, that's helpful. And Vipul, you did indicate that labour market is getting tight in the US and so is that within India as well. So what are we baking in, in terms of our annual risk cycle, are we talking about an advancement of a wage cycle here in India or are we looking at a normal wage cycle?

Vipul Khanna: At this point we are looking at a normal wage cycle. But clearly at a tactical level if we need to do some tactical measures, some restructuring of how we pay and better incentive structure, those are some of the thoughts that we have already put in place for the mortgage market, which is very hot, and we might have to replicate as healthcare and other things pick up in the U.S.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, most of my questions have been answered, I have just two small points. One is, while historically our growth rates have been subdued and this year for the first time, we have seen a very strong growth. Now, ex of mortgage, are there any changes that you are seeing in your revenue contracts in terms of maybe the longevity of contracts or the possibilities of increasing the ticket size of contracts, which is giving you sort of more confidence of a higher trajectory of growth rate going forward? So, that is number one.

Secondly, on the operating margins, because of this the cycle of increase in wages that we are seeing across the industry. So, ordinarily, with such high revenue growth you would also expect a much higher sort of increase in the operating margins. But given the fact that our lower operating margins are probably due to higher wages cost compared to the revenues, so compared to a normal industry our operating margins are a little bit on the lower side, that means our people cost is higher. So, this wage cost impact which can have an inflationary impact, is it going to disturb this guidance of, I think, 11.8% to 13.8% which you alluded towards?

Vipul Khanna: Yes. So the guidance was 11.8% to 12.3%, so 50 basis points spread on that. So, longevity or the nature of contracts, yes, I have been very focused on making sure we have sales operations discipline, a formal and structured way of account management, so that for our targeted growth accounts we are putting very disciplined account growth plans, and we are investing in the right network in relationships, understanding client products better and taking the right solutions. So, I think that plays a role in terms of you farming the accounts better, and obviously, you embedding yourself, so hence the length of your SOW, the statement of work tends to be longer. So I think you have hit two of the key points that, that is an expectation that I have from our businesses, as we continue to invest in more senior and more well trained efforts, as far as account management is concerned, especially in areas like HPHS, Europe, we historically have enjoyed fewer but stronger relationships, so I think that already exists. And likewise, for collections. But HPHS is one area, as well as mortgage, these are two areas where I expect there will be a different flavour of our relationships for the better as we kind of settled in.

The second element which will change is now digital, right. Could be small in terms of automation, could be more strategic on intake, and could be even more transformational, where you are looking at an entire target operating model redesign of the entire stack, whether it is tech, operations or analytics on top, including software. So I think in certain areas, that's area they are building up where the nature of the contract becomes business process as a platform based service, which is a very different consumption base, sort of the SaaS equivalent of our industry that becomes consumption based, and hopefully more sticky because you are taking care of something sort of end to end. Again, small at this point in time, as you see from our service line breakups. That's something that you are focused on and building in select areas. So that's the colour commentary as far as changing nature of contracts is concerned.

Your second question was on margin expansion given the growth and will labour cost impact on margin guidance? So, look, I think, as I have been saying, the strategy to build the growth is that you need to continuously invest in newer capabilities, right, whether it's new segments, new offerings, new operating models, partnerships, etc., etc. They are not CAPEX, but they are in your SGA investments that you are doing. And the strategies to harvest margins from operating efficiency and put some of it to work for the future capability so that you can keep running the growth, right, that's one dynamic, a simple but important dynamic to keep in mind as far as the margin build and the margin change, at least for our FSL business is concerned.

Wage costs, typically we do have contracts, or we have indexation clauses in our contracts in most cases, some cases not, that we are able to recover some of it with our clients. There are obviously timing differences, there are differences in terms of what we pay versus what allowed as per indexes and stuff, so there is always some arbitrage or some gap out there, but to an extent it is covered. And at this stage, we are looking at, as the labour market continues to come back strongly, we are wanting to make sure that we are the right employers, and very focused on becoming very purposeful company, not just for temporary urgent situations like COVID, but long-term. So the first core effort is to become strategically focused on becoming a strong employer of choice with a sense of community and a sense of purpose. And that should drive to allow us to get more people and not necessarily who's paying the extra 5% or 10%. That will always be the aim, but this should be the bigger driver. So on the one hand that is the focus.

And on the other is to make sure that we are continuously looking at the right places to grow so that we are able to kind of assess the labour market potential to grow. Obviously, big cities are important, but we also want to make sure whether it's India or U.S., U.K., we have the right geographical mix. And we are very focused in having the right strategic footprint. And just in in the last couple of quarters, we have shut down four smaller US sites, as we are focused on building more strategic bigger sites where we can invest in right infrastructure, the leadership and stuff like that. So we have a mix of factors to draw people, to keep people, as well as choose the right location, both near and offshore. And you will see how this plays out as the year goes by.

Moderator: Thank you. Next question is from the line of Karthik from Unifi Capital. Please go ahead.

Karthik Sambhandham: Just wanted to understand about the PatientMatters run rate for the quarter, how much was it and probably what is the growth potential going forward?

Vipul Khanna: Sure. So when we had acquired, it was at a run rate of about $17 million per annum. Obviously, December, we had gotten one month and now we have got full quarter, Q4 was full quarter. Our integration plan calls for reasonable revenue synergies between our business and PatientMatters for the next two years, so FY 2021 and FY 2023, and we are starting to see good cross-sell happening. So that is baked into our overall healthcare growth guidance, as far as revenue synergies is concerned.

Karthik Sambhandham: So, is there a particular number or a run rate that you have foreseen in Q4 and maybe with the exit for FY 2022, 2023, do you foresee a number?

Vipul Khanna: So, our run rate for Q4 FY 2021 was between $4 million to $4.5 million. I don't have a specific number in terms of just that run rate, because it will blend out, by the end of this quarter you blend into one operating unit as far as PatientMatters in our healthcare provider business is concerned.

Karthik Sambhandham: Sure, sir. That's helpful. And another one on the CMT front, I just wanted to understand one thing. So when you say the top client being in a media business, they are streaming or the digital outlook for them, that is also probably going to be on a high scale given that there's a lot of competition increase from Netflix and so many other streaming partners, so the traditional people are putting in so much effort in there to up the game as well. So does this or will it translate to a drastic change in the tailwind from their end? Or what's the outlook there specifically for top client?

Vipul Khanna: So, for our top client, we serve both their, let's call it, the full scale products, as well as their streaming product. And whatever change in portfolio that has happened or will happen in the future, we have been part of that journey from them, right? Whether it was an adjustment or building new capabilities. So given our portfolio mix there and what we know of their business plans, there isn't a significant change or a drastic change as we characterized it, as far as their operating model, and hence the impact of them is concerned. That change is happening, and it's already baked into our portfolio, today we have been servicing both across their sales, services, retention, etc., etc.

Karthik Sambhandham: Sure. And sir, even if you see this quarter, it's probably been the best quarter in the last three years, given the run rate for the last three quarters also have been really good. So, do you foresee this kind of a run rate going forward for the next two, probably eight quarters? Or do you see some good growth coming in from your deal wins?

Vipul Khanna: So, as I mentioned, I think there was an element of it going down, got up and then there was some change in the mix and consumption pattern and we kind of had the advantage to have a strong relationship and harness most of that. I think we are at a good run rate. I wouldn't expect significant growth from this on the top clients, right, you will see sort of incremental growth in this. And at this time, I am not expecting any drastic reduction per se, unless something dramatic came up. But I think we are in good shape as far as current run rate is concerned of the top client.

Karthik Sambhandham: Sure. So is it in the same vertical as such, right? In CMT, can I say, probably 70% to 80% is from the top client? Or to put in other words, what's the outlook for other than top clients in the CMT vertical?

Vipul Khanna: So we have had good wins in this year, we are still building out some of those wins, and you will see the revenue impact come through for a full year. Again, they were small relative to the big clients. And the other dimension that I mentioned to you was that our small North America CMT portfolio showed good growth in one of the key accounts that we have in the US. And the new team is working hard to kind of build up the pipeline and get some things out there. So the North America CMT is a kind of long-term build, but we are committed given the size and the opportunities there. We should see sort of meaningful growth start to come out end of FY 2022, maybe even FY 2023 from that segment. But we are kind of building multiple segments within that.

Karthik Sambhandham: Sure. Sir, just one last question on the healthcare part. So PatientMatters do come in the provider section, am I right to say that?

Vipul Khanna: Yes.

Karthik Sambhandham: So along with that, now that we have a full-fledged healthcare provider services, front and back end, so can I say that the healthcare vertical is going to go through a revival going forward in the next two years?

Vipul Khanna: Yes, we feel good about it. It's a massive sector, we have invested heavily. We are working hard for pipeline accounts, and then growing accounts. We should see strong growth from the combined healthcare segment.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead Investment Advisors. Please go ahead.

Sonaal Kohli: So, my first question is that, is my understanding correct, the sales cycles in your industry are much longer than IT services, therefore, a lot of effort we have been putting in, or you are putting in the past or putting in now, would flow through the company only with a lag and hence is it a fair assumption to conclude that the higher growth rate for this company would continue for next three, four years or next two, three years? Your comments would be appreciated on this.

Secondly, is my understanding also correct that your aspiration long-term is to have a 15% EBIT margin? And currently, in the last year you were in investment phase. So, probably in FY 2024 or FY 2025 your margin trajectory could be significantly different than for FY 2022?

Vipul Khanna: Yes. So, look, the first part, sales cycle is longer, right, and the revenue build takes a while once you open a relationship, typically it takes a while to build up on the revenue bit by bit, you take the time to understand their processes, their operating systems, their cultures, build their relationship. So, yes, we have been working hard on it. Some of the benefits we are starting to see, like you saw the mortgage benefits in FY 2021, and we have seen the healthcare benefits start to pop up. Obviously, we need to continue to put our foot to the accelerator here in terms of capabilities, sales, etc., etc. to keep at it. The aspiration, as I have been saying is to kind of be a top quartile for the industry growth leader, and for that, account management, sales, new segment, new capabilities, in sort of different levels of ways of investment and adoption, maturity will pay out.

Long-term margin, I have said, and we have committed that we will continue to pick up our margins year-on-year operationally and continue to put some of it back into SGA. We haven't really modelled out to say where we end up in three years. But Yes, we could see continued pick up in our margins in the next few years. Too early to comment on when will it be 15% or will it be 15% or not.

Sonaal Kohli: There is a reasonable possibility that your margins in FY 2023 or FY 2024 could be materially different than FY 2022? I am not asking for a guidance; I am talking whether it's a possibility in your view.

Vipul Khanna: So, the way we are looking at the business and the way we are modelling, as I said, we expect slightly improved margins in FY 2021, and we are committed to improving them by another sort of 50 basis points in FY 2022. We should see that sort of ballpark of quantum improvement year-on-year.

Sonaal Kohli: And sir, it’s my assumption that the acquisition portion paid off well so far, but larger and bigger deal wins require longer time and therefore if you are successful in that, based on the efforts you have been putting in, is it safe to conclude a 15%, 20% growth trajectory is possible over the next few years? And this is not one-off led by mortgage benefits or healthcare revival?

Vipul Khanna: That one, I have been saying consistently, we want to make sure that we are diversified in our portfolio and we are able to take advantages of developments happening across industries. And it is kind of played out in our forecast for next year as well. So it's not definitely on one industry, it goes to the other. We have given the guidance for FY 2022 and we will see how it goes after that in terms of the next few years.

Sonaal Kohli: Sir, are you modelling significant decline in your mortgage assumptions from a Q4 run rate while building in this forecast? And if it's possible for you to give some colour, it will be appreciated to understand what is more within the range of the guidance from a Q4 run rate or a yearly run rate. And secondly, your personal opinion, do you think BPO industry changing its growth trajectory post COVID, compared to last few years, they also expect that at some point of time to cut costs, there will be significant increase in outsourcing in the industry?

Vipul Khanna: I couldn't say that it's a secular trend across industry, but because of COVID there will be more or less outsourcing. The secular trend coming out, as we know, is more digitalization, because all of us have found different ways of doing everything on digital. And it's a matter of sort of who gets in and adapts to digital and puts more digital in their offering. I think that's the secular trend to play out. So does it play out across industry for every player? I don't know, I think it will be like who jumps in and who has a better chance of coming out with greater wallet share. And that's our endeavour to make sure our offerings are fresh and contemporary. And it kind of bakes in all the learnings of COVID and the consumer behaviour change and the enterprise behaviour change into our offerings.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Vipul Khanna: Well, first of all, thank you all so much for taking the time. I know these are incredibly hard times in India, I hope everybody keeps safe. There is health and there is survival, and within few weeks of seeing the worst of it. We continue to run our business to highest standards, as well as to make sure that we take care of our people. And we seek your blessings and wishes in that endeavour. Again, thank you for your time and interest. And we will see you in the next quarter.

Dinesh Jain: Thank you, everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Firstsource Solutions Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.