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Q1 FY2009 Earnings Call – July 30, 2008

CORPORATE PARTICIPANTS:

- Mr. Ananda Mukerji – Managing Director and Chief Executive Officer
- Mr. Raju Venkatraman – Joint Managing Director and Chief Operating Officer
- Mr. Farid Kazani – CFO India and Global Financial Controller
- Mr. Krishnan Akhileswaran – Head of Investor Relations

Moderator: Ladies and Gentlemen good morning and good evening and welcome to the Firstsource solutions limited Q1FY09 Earnings conference call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call they may signal an operator by pressing * and then 0 on their touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Krishnan Akhileswaran, the head of Investor Relations. Thank you and over to you Mr. Akhileswaran.

Krishnan Akhileswaran: Thank you Rochelle; very good morning to the participants in the US, good afternoon to our UK participants, and good evening to all participants from India. Welcome everyone and thank you for joining us on our Earnings call for the first quarter end of June 2008. Please note that the results, fact sheet, press release and the IR presentation are available on our website www.firstsource.com. The transcript of this call will also be made available on our website. To take us through the results and to answer your questions, we have with us today Ananda Mukerji, our Managing Director and CEO.

Ananda Mukerji: Good evening everyone.

Krishnan Akhileswaran: Raju Venkataraman, our Joint Managing Director and COO.

Raju Venkataraman: Good evening, Raju.

Krishnan Akhileswaran: Farid Kazani, our CFO.

Farid Kazani: Warm welcome to all.

Krishnan Akhileswaran: We will be starting this call with a brief presentation which I have already circulated by email, providing an overview of the company's performance in this quarter, followed by Q & A session. Please note that everything said on this call that reflects any outlook for the future or which can be construed as a forward looking statement must be viewed in conjunction with the risk the company faces. The full statement and explanation of these risks is available in our prospectus filed with SEBI. This can be found at www.sebi.gov.in. With that said, I would turn the call over to Mr. Ananda Mukerji, our Managing Director and CEO.

Ananda Mukerji: Good evening everyone and thank you very much for joining this call. As Krishnan mentioned, we will take you through the brief presentation on our Q1 results. I hope all of you have received the presentation and have it with you, and if I turn you to slide 4 of the presentation. If I look at our Q1 numbers sequentially from Q4, our revenue from operations has gone up from 3756 million to 4079 million which is an 8.6% sequential growth in revenue. The year-on-year comparison is not very meaningful because we had the MedAssist acquisition in the end of the second quarter of the last year. So the comparison, first quarter between the last year and this year, gets skewed in account of that. So I will focus on Q-on-Q comparison rather than the year on year.

The operating EBIT level is more or less flat and has gone down marginally from 39.6 crores to 38.2 crores. The big line item in this quarter's performance is loss or gain due to the exchange variation in FCCB of 80 crores charge. As you are aware, we have a 275 million dollar FCCB and that liability needs to be restated at the exchange rate prevailing on the last date of the quarter and the exchange rate moved from 40.12 at the end of March 2008 to 43.04 at the end of June. That impact is 80 Crores, which is the restating of the liability and needs to be taken through the P&L, as per accounting standards.

As all of you will appreciate, it is non-cash, non-operating charge. So, if one takes that charge, the loss is 50 Crores and excluding the charge, the profit is 30 Crores. Turning to the next slide and talking about the performance, the 8.7 Q-o-Q growth in revenue has come from a couple of areas. One is the domestic revenues including Airtel ramp-up which is taking place and it still continues to happen in the current quarter. Barclays which came in at the end of the last quarter had the full impact in this quarter as also there were other smaller movements in the existing customer base. The negatives in the revenue side was the fall off in the grant income, which was there in Q4 of 2008 which had an impact of about 63 million and the normal collection seasonality which we have, whereby in collections business, both the profit and the revenues are highest in the Q4 and tends to fall off in Q1. At the EBIT margin level, the operating margin percentage was 9.4% as against the 10.5 % in the Q4 of the previous year, lower than 110 basis points. This negative impact is due to a couple of factors. One is as I mentioned before, the fall off of the grant from the previous quarter, the cost of growth of Airtel; as we have added about just under a 1,000 employees in this quarter. The collection seasonality fall off and some of the other volume fluctuations in the business as also the normal annual wage increase which takes place in this quarter. The positive factors which offset some of the impact were the favorable currency and the service delivery leverage. SG&A, as a percentage of revenue is lower as our revenues are growing and depreciation as the percent of revenue has also come down. Turning to slide 6, foreign exchange hedges, our policy is to hedge non-speculatively and to hedge cash flows at our budgeted level. We had already covered 70% FY09 projected cash flow at the beginning of the year and as of date we have outstanding hedges of $108 million. We see a strong business growth in the domestic market. As we have said, we expect this continuing in the current year. Airtel which is a new customer which we announced last quarter is growing significantly and we are currently working out of 2 centers and building out a third center at this point, which is expected to be operational by the end of this quarter. Vodafone Essar, we are adding two more delivery centers in Bhubaneswar and Siliguri to support the future growth from this account. Turning to slide 7, I mentioned that our total head count has gone up by just under a 1,000 employees as against increase of 279 employees in the last quarter and employee strength stands at 18,353, out of which just around 14,000 employees were in India and 4,500 roughly, outside India. Attrition is stable from the last quarter from 38.9 to 38.7. Seat fill factor has gone up little bit by 300 basis points from 73% in the previous quarter to 76% and this is one of the factors behind the operating leverage which I spoke about earlier.

In one of the questions we have been asked in earlier calls and in terms of what is the share count outstanding, just to make it clear for everyone, the outstanding share count is 427.6 million shares. The fully diluted share count is 620.8 million shares; this includes outstanding ESOPs of 76.2 million shares and potential dilution from the FCCB of 117 million shares. As I mentioned in the last call, we have continued to gain international recognition for the quality of our performance and process excellence framework which we have set up and we won 2 significant awards, one is transaction and services category in the IQPC awards in London and the second is from the Everest Group in its outsourcing excellence award in 2008 for the most flexible partnership with Lloyds TSB Bank.

Turning to slide 8 which is a picture of how our overall business mix is looking like. As you would see, our client concentration, which is revenue from top five clients, has come down marginally from the previous quarter from 31.2 to 30.9 and the largest client is now contributing less than 10% of our revenues in this quarter. Geography mix is largely stable from the previous quarter other than India which has grown from 9.5 to 10.2. UK has declined a bit, US has remained more or less stable. In terms of vertical mix, telecoms and media has gone up a little bit from 29.1 to 30.8. Healthcare has gone down a little bit from 39.5 to 39 and BFSI has comedown from 28.5 to 27.7. So, all in all, not a whole lot of shift. It is more or less the same, it remains, broadly 40% healthcare, 30% telecom, and 28% BFSI at that level. Probably we spend a couple of minutes in talking about the individual industry verticals we are in and how do we see the outlook for the each of the verticals.

Turn you to slide 10, to talk about the healthcare verticals as to refresh everyone’s memory and most of you have heard me say this before but you know we provide services on two sides of the market place, one as the provider of services to the hospitals in the US for which we offered eligibility services, collections and receivables management and for the payors, which is health insurance companies for whom we do a full range of work around claims processing ranging from mail rooms down to claims processing and adjudication and also do enrolment services for this segment. We do this out of US and India and this vertical contributes 39% of the revenues, employs above 3,000 people. Key clients are 3 fortune hundred healthcare payor companies and over 800 hospitals in the US.

During Q1 of FY09 we had won one new customer in this vertical. This of course excludes MedAssist which has 800 customers and on an ongoing basis adds and removes customers on a regular basis, excluding that from this list, we have 2 process ramped up and no process ramped down. As anticipated, as there we have not seen any impact of economic slowdown on this segment growth and we have good momentum with the payors right now with additional new business. MedAssist growth is also on track and based on what we have anticipated, we have seen good growth momentum from MedAssist.

The next slide talks about telecoms and media. Here we have a very broad range of services offerings, both in terms of kind of segments within the telecom industry we service as also the kind of services we do, ranging from fixed line and wireless to broadband and mobile and direct to home satellite television. So this covers wide range of companies and with the industry consolidating, we have seen growth coming out of the existing player's, one segment wanting to expand into other segment and because we have presence and experience in the wide segment it's a big opportunity for us to cross-sell and grow our business. We do a fairly wide range out here from in the customer service, tech support, billing, retention sales provisioning fulfillment, receivables management, collection, customer service and research and analytics. We service this out of pretty much every location we are in, other than the US. We do this out of UK, out of Argentina, Philippines, and India. As I mentioned, it contributes about 31% of our revenue, has 9,500 employees; work for 2 of world's top ten telecom companies and 2 of the leading Indian telecom service providers. In this vertical we have 2 new deals in the quarter and we have 3 processes ramped up and no process ramped down. This business is largely stable, existing clients are stable and we are seeing ramp ups from domestic customers.

Turn you to the next slide of the BFSI segment. Here we work for companies in credit cards, mortgages, retail banking, general life insurance and some custody, deliver out of again fairly wide range of places from US, UK, Argentina and India, 28% of our services revenue comes from this segment. 5,000 employees, work for 3 of the 5 largest US bank and 5 of the top ten credit card issuers. In this quarter, we have 3 new deals, one process ramped up and 2 processes ramped down. The collection business which was spoken about extensively over the last 2 quarters is relatively stable and if one adjusts the seasonality we have seen, no further deterioration in the business metrics; however, we are watching this segment very, very closely and we will be able to form a more definitive view as the quarters evolve and as the US credit environment plays itself out both from the customer as well as from banks perspective. We are however seeing a lot of growth potential coming out of the collections business. In fact there is more opportunity in this segment right now than we can probably service and we are increasing collectors both in the US and in India, to be able to grow that business and take advantage of the opportunity. As we anticipated, the volume of outstanding debt is going up as defaults increase. The volume of debt on which the collection services required, is going up and that is a big opportunity for us for the future. Overall in the other segments of the banking industry, as we had anticipated, it is sluggish and new business deals are taking longer.

Just to touch on a few specific points which have either come up in the past that we thought will be relevant. Turn you to slide 14. First point is on delivering FY09 guidance. We had said 33% to 38% revenue growth in dollar terms. We are maintaining our guidance on that. On profitability, the guidance we had given, we expect operating EBIT to be similar to slightly below FY2008 levels with some quarter-on-quarter volatility is what we have said. We see several levers to improve our profitability and we have seen productivity improvements. We have done a benchmarking study of our processes and we have initiated several steps to improve productivity and there is lot of potential out there. A lot of work is going on in integrating the North America operations, particularly with the

MedAssist acquisition having taken place. We have now integrated most of the support functions, whether it is finance, technology, HR, are all completely integrated. We are looking at significant integration synergies across North America. We are also looking at moving some of the MedAssist back office processes to India and pilots have started on that and we see significant opportunities there. We see SG&A leverage opportunities as our revenues grow and SG&A does not grow on same proportion. The capacity utilization, as I mentioned, our seat fill factors improving and we are expected to continue improving in the coming quarters and we believe that the combination of these will result in a 150 to 200 basis point expansion in EBIT margins over the coming 2 to 3 quarters.

Turn you to slide 15, the FCCB and the impact on us and we have spoken a lot about it with analysts in the past as well, just to talk about it and put it in context again. Zero coupon FCCB of 275 million matures in December 2012, conversion price of Rs. 92.29, which is at 35% premium to the reference price at that point. Our perspective on that is that the maturity of this instrument is 4.5 years away and we view it as a convert and we believe that at this point the market is obviously in a downturn but we do see that over five years there is probably going to be more than 1 economic cycle which will take place and it is hard for us to assess what the price is going to be and whether it is going to be a convert or not. We do see that given the way our business is expected to grow in the next 5 years, this will be convert.

However, one of the questions we have been asked is that if it does not convert and if it becomes a debt, how we would look at it and from our perspective we are looking at in that context as a extremely low cost debt for us. It is 6.75 % YTM with the zero coupon, which effectively means cost of about 5.5% debt, which is much cheaper than any other comparable cost of capital we would have had and it is to be redeemed at the end of 5 years. We believe that given the growth in our earnings over this period, we should have no problems in refinancing this debt at even fairly conservative level of debt to EBITDA which are prevalent in the market today. So it is a non-cash, non-operating charge**,** we are not really concerned about it and one of the things we have been asked by some analysts in the past is why don't we hedge this liability and clearly this is, we see as a convert and it is over 5 years' time and really hedging at this point would make it a speculative transaction, because if it is to convert, then we will not have an underlying liability to be able to extinguish that hedge with. So we are not going to be doing that and this is something which we see on a Q-o-Q basis, we are going to have either a profit or a loss on the mark-to-market basis which is why I think that the important metric for us to focus on in terms of the company's performance is really the operating EBIT.

In summary, I would say it has been a reasonably good quarter. I think we are happy with the top line growth we have been able to achieve in the difficult market. I think given the seasonality of the business and the normal pressures we have on Q1 which we spoke about it at the end of Q4, we are reasonably comfortable with the fact that our EBIT is more or less stable from what it was in the last quarter and we see continued growth momentum from our customers, particularly, in telecoms and media and healthcare and therefore we think it is a good start for us for the rest of the year. With that I will hand it back to the moderator and I will be happy to take questions.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer section. At this time if you would like to ask a question please press * and then 1 on your phone. If you would like to withdraw a question from the queue you may press * and 2. Please use only handsets while asking a question. Anyone who has a question may press * and 1 now. The first question is in the line of Srivathsan from Spark Capital. Please go ahead.

Mr. Srivathsan: Hi, my question, First thing is that in spite of the rupee depreciation that we are seeing, we are just maintaining an EBIT margin. Is any other reason for it or you just want to be more on the cautious side?

Ananda Mukerji: Yeah, I think overall we are not changing our guidance. We have said that we are maintaining what are the numbers and our guidance in top line is in dollar terms so depreciation really does not matter out there. EBIT margins, we are not really changing our guidance, as we have said at this quarter, our EBIT margins is 950 basis points. So we are expecting that this is going to increase over the next 2 to 3 quarters over as an account to productivity improvement and so on which is why we don't think it is probably appropriate to revise the guidance at this point.

Mr. Srivathsan if I remember correctly, we were not expecting any grant income this quarter, so that's something that has been. Is there any outlook that you will give us on the grant income?

Ananda Mukerji: The grant income is really what it was there largely in the previous fiscal. So we had this when we setup the centers in Northern Ireland to offset the initial setup cost and the initial training cost and the operating losses we had, the Government of Northern Ireland gave us a grant and that was largely bunched in the first 2 quarters of the last year and also there was some residual amounts over the last third and fourth quarter. It is now pretty much tapered off so we have had it come down by from about 8 Crores in the previous quarter to 2 Crores in this quarter and there is not a whole lot left in the rest of the year. So we have had a 6 Crores fall off in the grants in the previous quarter to this quarter.

Mr. Srivathsan: Just wanted to know what are the salary hikes given in this quarter?

Ananda Mukerji: Our salary hike, our overall salary hike is about 9% in India at the agent level and about 3% for international agents. And the overall impact is 0.3% on the quarter 1.

Mr. Srivathsan: Thanks. I will comeback later for follow up questions.

Moderator: Thank you Mr. Srivathsan. The next question is from the line of the Mitali Ghosh from DSP Merrill Lynch please go ahead.

Mitali Gosh: Hi good evening. Just wanted to understand, you know, what is the outlook for the next quarter and given your revenue guidance is quite steep at 33%-38% what is the visibility you have on the quarter subsequently.

Ananda Mukerji: Mitali, we normally do not give Q-o-Q guidance. I think we are expecting as part of the business some of the growth is going to come over the course of the year as ramp up takes place. So we are really not looking at what would happen in a Q-o-Q basis. But I think there is really nothing unusual which will change from this quarter to the next quarter. We are having some ramp ups taking place because of Airtel ramp ups and all are happening, so I think factoring all of that we think that what we see in the next few quarters and deals in the pipeline, we feel the guidance is still appropriate.

Mitali Gosh: Is it fair to assume that the new deal wins that you spoke of this quarter is something that was expected even earlier and you know will feed into this year as well.

Ananda Mukerji: I think that the deals which have come in are the deals which we will were seeing at the beginning of year and some of them have come in and some of them are in discussing phase and are progressing. So we are really assessing what our expectations are based on how the pipeline is moving and how the existing revenue streams are moving. If I asses all of that and see where we are in June 30 compared to March 31. We think we are still on track in terms of what we expect it to be.

Mitali Gosh: Right and just as a follow up to that in terms of the pipeline itself how are you seeing sort of new deal flow and closure rates as compared to let say about 3 months back.

Ananda Mukerji: Well, the deal flows from healthcare and telecom and media are strong. On the BFSI side, the deal flows from collections are strong, there is a lot of business which is coming in and as I mentioned in my presentation our constraint right now is how much business we can take on and how fast can we ramp up. Those are strong. I think the part of non collections of BFSI business is where we are seeing relatively sluggish growth and deals taking longer or deals getting deferred and we had anticipated that and mentioned that in the beginning of the year and that we expect that it continues to be slow. In terms of how it has moved, the pipeline we seen in the beginning of this quarter, and our pipeline does not come in and close in a quarter, there is a movement in the pipeline which takes place and it evolves from one phase of the pipe line to the other. Most of the deals we are talking about are moving forward in the way we have thought. We of course have, like in all businesses, we have some deals within the pipeline which fall off and some new come in. That is in the normal course of business.

Mitali Gosh: You would not say there has been a pick up in the pace of deal flow.

Ananda Mukerji: No I would not say there has been any change in the momentum. Clearly there have been new deals which are coming to the pipeline but new deals come into the pipeline every quarter.

Mitali Gosh: Right, and just one final question if I may. In terms of the ramp down, you mentioned in the banking sector that is something you presumably saw in this quarter and you expect that to continue in the next quarter as well. When do you expect that to be behind?

Ananda Mukerji: No, these are completed in this quarter.

Mitali Gosh: Okay. Thanks I will comeback later.

Moderator: Thank you Ms. Gosh. The next question is from the line of Madhu Babu from Systematix Shares and Stocks. Please go ahead.

Madhu Babu: Sir, how many employees you have for the domestic business and what are the margins in the domestic business as compared to the US business.

Ananda Mukerji: I will answer the margin question; Farid would tell you the exact number in the domestic business. The margins at the operating EBIT level are pretty much the same as the margins in the other parts of the business.

Farid Kazani: The employee strength would be a little over five and a half thousand in total; as of June 2008.

Madhu Babu: Okay**.** Sir, our attrition is comparatively higher to the BPO's operated by the IT services company. What could be the reasoning for the same, 38% attrition?

Ananda Mukerji: I think it is probably comparable with what other BPO companies, I do not think IT companies can be compared for attrition purposes because they employ a very different kind of people. Our attritions are being a little bit on the higher side for the last three quarters because we have been setting up new businesses, new operations in Tier 2 Tier 3 cities. Our experience now tells us it takes quite sometime for us to stabilize and as we find the right mix of employees and so it does take some time to stabilize and as we keep adding that into different new center, so that tends to remain high. But it has been relatively stable now and we believe that this is something we can deal with and of course would like to bring it down and we are targeting to bring it down over the next few quarters and it is something we are focusing, but with the kinds of growth we are having, its particularly in the domestic businesses. It is not something we can really quantify in terms of when we are able to do that.

Madhu Babu: Okay. I was just wondering because the IT companies which are operating in their BPOs, Sir the attrition is around 15% to 25%. Is it because of the kind of work whether it is voice or non-voice, that determines the attrition in the BPO industry?

Ananda Mukerji: Yeah, It is also related to the kind of work, that is also true. It is related to the kind of work if there is no element of voice involved in it then the attritions are lower, if it is in metros the attritions tend to be higher. In smaller cities the attritions are low. So it does vary a little bit on the business mix.

Madhu Babu: And on the delivery centers we have around 15 delivery centers in the US. Are we trying to rationalize them and move back to India because of this MedAssist acquisition?

Ananda Mukerji: Yeah. We are, as I mentioned in the presentation, we are looking at some elements of MedAssist operations and how much of that can be moved back to India and we have already started a pilot to do some of the processes. Rationalization of the centers are something that we are looking at because now we have number of centers and whether combining centers will give us advantages and some of the synergies that I mentioned would come from things like that.

Madhu Babu: Okay sir. Thank you.

Moderator: Thank you Mr. Madhu Babu. Next question is from the line of Mr. Sujit Joshi from –Irevna Please go ahead.

Sujit Joshi: Hello, good evening. Could you just tell what's the realized dollar rate for the quarter?

Farid Kazani: The realized rate is Rs 41.62 for this quarter.

Sujit Joshi: Okay and your organic revenue growth guidance for the full year would be retained, as last quarter was 17- 20%. Is that right?

Farid Kazani: Yeah as per our guidance we had said the total growth is 33 to 38 % and if you take the organic part it will be 17 to 20%.

Sujit Joshi: That's it for my turn. Thank you very much.

Moderator: Before we take the next question we would like to remind participants that you can press * and 1 to ask a question. The next question is from the line of Mr. Srivathsan from Spark Capital. Please go ahead.

Mr. Srivathsan: Yeah, just couple of follow up questions. The migration of work from existing MedAssist to offshore, will that entail any severance cost as it is?

Ananda Mukerji: No these are not! We are not talking about shutting down centers. These are moving some of the processes and normal attrition or restructuring work among others takes care of it. So we do not anticipate any cost like that.

Mr. Srivathsan: I just wanted to understand if I look at we are hoping the Metavante relationship to be major kicker in terms of us to improve our revenues but looking at the revenues from the BSFI over the last 7 to 8 quarters, there has not at all been any major improvement. This is that we haven't seen any great traction as the relationship passing, that Metavante for the last two quarters, the results have not been so great.

Ananda Mukerji: Yeah you are right. BFSI segment clearly has not seen deal movements, deal flows in last few quarters and it's something we are not happy about. But we have to see the business reality that the sector right now is focused on a lot of issues of their own and they are not really looking at the strategic outsourcing deals whether it is directly or through Metavante, it is the segment that we are seeing sluggish growth at this moment.

Mr. Srivathsan: Just want to understand if you could just sort of give us some idea as to what proportion of business would be from services such outbound related calling or customer acquisition or more in terms of getting new customers for a client across selling and up selling what portion of revenues or business could be from such sort of solutions.

Ananda Mukerji: It actually is very minimal. I would think some way between may be less than 1%, I would say 0.1 to 0.2 % of our revenues would be from that categories. This is more where we have existing customers for whom we are doing other work and who want some work to be done, where there is some element of outbound calling but we generally don't do that work at all, I would say it is certainly less than 1%.

Mr. Srivathsan: I just wanted to get, is it possible for us to give a break-up, between the headcount how many would be the billable non-billable agents?

Farid Kazani: Roughly close to 15% would be the non-billable portion in terms of employee count.

Mr. Srivathsan: Ok, sure and what is the cash balance as of balance sheet?

Ananda Mukerji: Sorry, say it again.

Mr. Srivathsan: The Cash balance, what was the cash position as of June 30th?

Farid Kazani: It was Rs 139 Crores

Mr. Srivathsan: Capex outlook for the year would be?

Farid Kazani: Capex for this quarter was Rs 25 crores and for the year we are looking roughly between Rs 70 to Rs 80 Crores for the year.

Mr. Srivathsan: Okay, sure, thanks a lot.

Moderator: Thank you Mr. Srivathsan. The next question is from the line of Mr. Krudent Chheda from Value Quest Research. Please go ahead.

Krudent Chheda: What would be the tax rate in FY09?

Ananda Mukerji: Yeah the Tax rate we had guided to 15 % tax rate for the year. We had a higher tax rate in the first quarter but we expect over the year we should be around the same.

Krudent Chheda: Around 15%?

Ananda Mukerji: Yeah.

Krudent Chheda: Also what was your average realized dollar rate.

Farid Kazani: Rs 41.62.

Krudent Chheda: Rs 41.62. What is your total outstanding FCCB?

Ananda Mukerji: 275 millions dollars.

Krudent Chheda: and convertible at Rs 92?

Ananda Mukerji: That's right.

Krudent Chheda: That is convertible after 4 years. Am I right?

Ananda Mukerji: Yeah. It converts in December 2012. So 4-1/2 years are left.

Krudent Chheda: Okay. Thank you sir!

Moderator: Thank you Mr. Chheda. The next question is from the line of Rishi Maheshwari from Centrum Broking. Please go ahead.

Rishi Maheshwari: Hi thanks. Most of my questions answered. Just one on why was the tax rate higher in this quarter?

Ananda Mukerji: Yeah. We are looking at number of steps on the tax front and we expect it to come down in subsequent quarters. It is an assessment of the forecast of the profit and what we have in the current cost structure, which is why it has been higher in this quarter. But it will come down in subsequent quarters.

Rishi Maheshwari: Alright. Thank you so much.

Moderator: Thank you Mr. Maheshwari. The next question is from the line of Mr. Madhu Babu from Systematix Shares and Stocks. Please go ahead.

Madhu Babu: Sir, regarding this healthcare vertical which is around 34% of the revenues, who are the other competing BPO's in the domestic players who are competing in the US market with us.

Ananda Mukerji: Yeah. It is about 40% of our revenue actually.

Madhu Babu: Yeah. 40%.

Ananda Mukerji: On the provider side there is really nobody competing with us in the market among the domestic BPO companies. On the payor side also there are a few players who compete and most of them are international companies like ACS, Perot Systems and companies like that but I think in terms of the width and depth of our healthcare offerings none of the other Indian BPO companies have the focus on the healthcare like we do.

Madhu Babu: Okay. Sir in this tier 2 expansion we are doing of the facilities, is it catered to only to the domestic business. I mean this Airtel and Hutch.

Ananda Mukerji: No. They are not dedicated. So we can do other businesses from there as well.

Madhu Babu: Okay. Thank you sir!

Moderator: Thank you Mr. Madhu Babu. The next question is from the line of Mythili Balakrishnan from JP Morgan. Please go ahead.

Mythili Balakrishnan: Hi. I was just wondering if you could you give us some color in terms of what are your feelings in the present environment currently?

Ananda Mukerji: I am sorry can you say it again

Mythili Balakrishnan: I was just wondering if you talk a little about the pricing environment which you see.

Ananda Mukerji: Pricing environment is fairly stable. We are not seeing any pressures in terms of reducing prices. As you might be aware, we price based on each particular deal and each particular contract and the contours of those contracts, so we are pricing based on what our target margin levels are and we are not seeing any pressures on pricing either from existing customers or from prospective customers to come in at lower prices. So I do not think we are seeing too much pricing pressure. Pricing is largely being stable.

Mythili Balakrishnan: Okay and in terms of MedAssist, could you talk a little in terms of, I am sure you have started, whole integration process is largely done. But what would be the revenues of that entity currently?

Ananda Mukerji: Yeah integration is largely done as you mentioned. I think we have now fairly integrated North America in the business and we have significant North America business that we are actually taking, looking at a lot of the synergy benefits which we can do out there. MedAssist calendar '07 was CY07 was about $100 million in the top line and we are expecting to grow that between 12%-15% this year.

Mythili Balakrishnan: Okay. Thanks. That's all from me.

Moderator: Thank you Ms. Balakrishnan. The next question is from Sangam Iyer from Artha Capital. Please go ahead.

Sangam Iyer: Yeah. Hi, I actually just dropped off early on the earlier part of the call. I am sorry to repeat the same question if it was asked earlier. Under the current situation, where we are in, what gives us the confidence of 33%-38% growth rate post Q1 results that have come out and also the maintenance of the margins at the same level as in earlier? Could you just if I am repeated, I am sorry to be repetitive on the call.

Ananda Mukerji: No I did cover that. But I can talk about it again. I think we are saying that when we started the year, we had the visibility of our existing business and we had pipelines which were there and we were expecting to see closure on the pipelines at the various points in time. Based on the existing business and how that has been growing and increasing and based on the how the pipeline movements are taking place, we believe that the 33%-38% numbers that we are talking about is achievable. Depends obviously on how those some of the businesses moves. So as you understand, it is guidance but at this point of time we believe that the guidance is still valid and we have not seen any reason from Q4 to Q1 to change that. We were expecting the Q1 to be in fact lower and in fact in the last quarter we have said Q1 will have pressures on account of all the seasonality and the factors which normally take place and we were expecting the Q1 to be probably a little bit lower than what we have actually come at. So, nothing that has changed because of Q1 on that. On the margin front we have come in first quarter at 9.5% EBIT margins. We have a number of initiatives we have on from which you will see the benefits over the course of the next few quarters and we are expecting to expand EBIT margins by about 150 to 200 basis points in the course of the next few quarters. So we expect that overall the guidance we have given in terms of margins would also hold at this point.

Sangam Iyer: Okay, the second part. I mean what could be the key risk as an investor one should be aware of you know when for this 33%-38% growth that we are guided for. Your perspective also as of now we are seeing the banking side shrinking a lot but at the same time we have the telecom business which is growing a lot. But having said that, that is comparatively at a lower margin as compared to the banking segment, so how should one be looking at the margin front considering that this pie is growing faster as compared to the better margin side?

Ananda Mukerji: No I do not think that's actually correct. Our domestic business at the EBIT level is at the same margin as our international business. I have said this many times in previous earnings calls. Because while one gets misled by the fact that the price points are lower. But the price points are lower also means that the cost points are lower and domestic business requires far lower SG&A than international business. So if one factor all that in, at the operating EBIT level we expect to make similar margins to our international business. So it is not something that will dilute the margin.

Sangam Iyer: Sir so, how should one be looking at revenue mix going forward say in 2009 and 2010? Could it be 30-30-30 like we have been guiding earlier also or would it be more tilted towards the healthcare or telecom business?

Ananda Mukerji: No. I think it would be fair to say that prevailing in the current year the 40-30-30 split will probably change a little bit more in favor of healthcare and telecom and BFSI is probably going to come down a little. But as I said, we have BFSI business potential which is there. I think long term I was to talk about FY10-FY11 going forward we do expect to see BFSI grow. So we are relatively agnostic in terms of how the 3 verticals turn out in terms of percentage terms. But we are looking at overall positive growth from all the 3 verticals. So it is hard for me to predict in FY10- what we would see in terms of a sector mix. But the way we look at the business is that these are the 3 verticals we are focused on and we are specializing and we are developing domain capabilities in and we would like to see this grow in the market condition, we would see probably one grow faster than the other at different points in time.

Sangam Iyer: Thanks a lot sir.

Moderator: Thank you Mr. Iyer. The next question is from the line of Mr. Nimesh Mistry from MF Global. Please go ahead.

Nimesh Mistry: Yeah. Hi. I wanted to dwell some more information on MedAssist. How much you know revenues did MedAssist report this quarter?

Ananda Mukerji: Yeah. We are not reporting in a segment separately. As a normal practice we have reported the numbers for a new acquisition at the time we have done it and further for that year. But now we are not going to be reporting at MedAssist separately. We have given an overall guidance and if you look at the overall guidance we have given we have also said how much of that is going to be organic stripping out MedAssist on a proforma basis but the subsequent growth which we have achieved in MedAssist is a function really of MedAssist growth what we are adding to MedAssist, what cross sell we are going to do with our capabilities with payors. It's probably not appropriate to look at now how much is MedAssist growing.

Nimesh Mistry: MedAssist was flat last quarter. So this quarter did we see good ramp up there or this was a flat quarter for MedAssist?

Ananda Mukerji: Can you tell me where you see MedAssist was flat?

Nimesh Mistry: I mean last Q4 MedAssist did about the same number. I think 275. It is 227 Crores something. Can you explain how much was this quarter was for MedAssist in terms of growth?

Farid Kazani: See, what we have shared with you for the last year, MedAssist has done 56 million in the last year. It was little over 6 months. We said that the guidance for the overall revenues for this year and also splitting that out without MedAssist.

Ananda Mukerji: And as I said, MedAssist is expected to grow between 12 and 15% in this year and they are on track to achieve that.

Nimesh Mistry: I just wanted to have a color as to whether the growth in MedAssist will be back ended or does it already come in this quarter.

Ananda Mukerji: No it is not back ended. It is steady growth over the years. But I think what we are doing, because we are providing acceleration in their growth, so they were growing historically at 5 to 8% and we are providing the acceleration and growth. So, to that extent, acceleration will happen over time. But this is a fairly well diversified business across 800 customers, across the whole of North America, selling multiple product lines. So this is a diversified business which tends to have its own growth momentum. It is not dependent on like in other parts of business where it is very deal dependent and the closing a deal makes a big difference to whether the revenues go up or not. Here it's more of a distributed model, so they have a lot of customers and growth in lot of customers. I do not think it is going to be too back ended.

Nimesh Mistry: Okay should I understand that the MedAssist did grow in this quarter and it is going to grow in a similar way for the whole year.

Farid Kazani: I think it will be appropriate to look at healthcare vertical that has grown from 7.3 to reach out compared to last quarter.

Nimesh Mistry: Okay. Thank a lot.

Moderator: Thank you Mr. Mistry. Next question is in the line of Mr. Nirav Dalal from Capital Markets.

Nirav Dalal: Good evening sir I just had one question regarding the guidance for the 33% and 38% guidance, how much of the pipeline would be needed, in the sense if you do not win anything now what would be the growth?

Ananda Mukerji: I do not think we can give you that kind of assessment because there are many factors in the pipeline. Pipelines include in an existing client businesses, which are ramping up, depends on volume forecast from existing customers, which may or may not achieve or come in or may be exceeded. It includes new businesses, which are being discussed. We have a percentage assessment of that. So it is hard to tell you that how much of it is based on deal conversion and how much of it is based on business on-hand. Because business on-hand is not a static number, the business on-hand itself moves up and down.

Nirav Dalal: So what could be the percentage of transaction based revenues to the total revenues, output based.

Farid Kazani: Output based will be around 60% for this quarter.

Nirav Dalal: And what will be the employee addition that you are looking for the year?

Ananda Mukerji: We do not speak on employee additions. We will talk about revenue increases and not employee additions.

Nirav Dalal: Okay. Thank you sir!

Moderator: Thank you Mr. Dalal. Next question is in the line of Mr. Vihang from Motilal Oswal

Mr. Vihang: Hi. This is Vihang from Motilal Oswal. I just had a quick question. Your EBITDA margin decline Q-O-Q, can you really quantify in terms of various levers I don't know if you have covered this already.

Farid Kazani: Well as Ananda did mention that the EBIT margin actually from the last quarter of 10.5 has fallen to 9.4 and probably a similar drop is there in EBITDA margin and that is largely to do with what Ananda mentioned of the drop due to the collection seasonality and the fall off of the grant income.

Mr. Vihang: Yeah. I mean could you actually convert that into basis points?

Farid Kazani: Grant will be approximately 1.6% and collection seasonality would be close to around 0.8% and that is made up by the rest of the positive factors on the count of favorable currency and SG&A leverage.

Mr. Vihang: So the balance is because of favorable currency and SG&A.

Farid Kazani: And there is also being a cost of growth for the Airtel grant which is roughly around 0.6%.

Mr. Vihang: What about your depreciation? It has been flat Q-O-Q?

Farid Kazani: Depreciation is, actually if you look at it as a percentage, it has moved from 6% to 5.5 % of revenues in this quarter.

Mr. Vihang: So is there any specific reason why is de-growth and as a percentage of sales?

Ananda Mukerji: Yeah depreciation, we have changed the depreciation period prospectively for our asset on the some of the asset classes, we have on the computers and technology equipments, from three to four to five years and for lease hold from three years to five years. This is based on our last six years experience and how we use the useful life of the assets. That has contributed about 4 Crores of saving in the quarter on depreciation. That has been counter balanced to the extent that we had new centers which have come up a little bit ahead of schedule. So that the 2 have been counter balanced and therefore the depreciation is flat.

Mr. Vihang: Okay. That's it. Thanks.

Moderator: Thank you Mr. Vihang. Ladies and gentlemen that was the last question for today and I would now like to hand over the floor over to Mr. Ananda Mukerji and the Management for closing comments.

Ananda Mukerji: I just wanted to thank everyone again for participating in this call and asking us the questions and hopefully getting clarifications. In summary, as I mentioned in the beginning, I think it has been a reasonably good quarter for us, given the fact that it is a quarter where as far as the business environment is challenging and we have normal seasonality impact of our business from Q4 to Q1. I think in that context, we got 8.6% Q-on-Q growth and we have got relatively stable EBIT margin performance, so it is relatively stable. So business outlook overall continues to be positive and we are maintaining our guidance at this point, based on the deal flows which we see and the way the pipelines are moving and overall I think the long term business environment is good and we do see even the segment. If I look at our overall business, about 70% is accounted by healthcare and telecoms where probably the momentum is good. Out of the 28% BFSI which is relatively sluggish of which about 10% collections where we have profitability under stress but we expect that over the next year or so this will also turn around and overall I think some of the growth drivers which are missing at this point in the BFSI segment will also comeback. So overall I think we have seen good growth momentum and continued growth momentum on the domestic side and we expect that focus on productivity improvement and operating leverage and integration synergy which we are driving, would help us improve the margins over the coming few quarters. Thank you very much for joining the call.

Krishnan Akhileswaran: Thank you again everyone for participating in this call. If any of you have any queries or any of your queries have been unanswered, you could give us a call at investor relations. Thank you and wish you a good day.

Moderator: Thank you very much gentlemen. Ladies and gentlemen on behalf of Firstsource Solutions Limited that concludes this evening's conference. Thank you for joining us on the Chorus Call Conferencing Service and have a pleasant evening. Thank you.