Q2 and H1 FY2009 Earnings Call Transcript – November 24, 2008

CORPORATE PARTICIPANTS:

- Mr. Ananda Mukerji – Managing Director and Chief Executive Officer
- Mr. Raju Venkatraman – Joint Managing Director and Chief Operating Officer
- Mr. Carl Saldanha – Global CFO
- Mr. Farid Kazani – CFO India and Global Financial Controller
- Mr. Dinesh Jain - Senior Vice President, Finance and Accounts.
- Mr. Krishnan Akhileswaran – Head of Investor Relations

Moderator: Good afternoon ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the Firstsource Q2 FY09 earnings conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Krishnan Akhileswaran, Head of investor Relations. Thank you and over to you sir.

Mr. Krishnan Akhileswaran: Thank you Sandhya. Good afternoon to the participants from Asia and good morning to participants from Europe. Welcome everyone and thank you for joining us on our earnings call for the second quarter and half year ended September 30th 2008. Please note that the IR presentation, fact sheet, results, and press release are available on our website www.firstsource.com and have also been mailed across to you. 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.

Mr. Ananda Mukerji: Yeah, good afternoon everyone.

Mr. Krishnan Akhileswaran: Raju Venkatraman, our joint Managing Director and COO.

Mr. Raju Venkatraman: Good afternoon.

Mr. Krishnan Akhileswaran: Carl Saldanha, our global CFO.

Mr. Carl Saldanha: Good afternoon.

Mr. Krishnan Akhileswaran: Farid Kazani, our India CFO and Global Finance Controller.

Mr. Farid Kazani: Good afternoon everybody.

Mr. Krishnan Akhileswaran: And Dinesh Jain, our Senior Vice President, Finance and Accounts.

Mr. Dinesh Jain: Good afternoon everyone.

Mr. Krishnan Akhileswaran: We will be starting this call with a brief presentation providing an overview of the Company's performance in this quarter followed by a 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 file with SEBI which can be found on www.sebi.gov.in. With that said, I would turn the call over to Mr. Ananda Mukerji, our Managing Director and CEO.

Mr. Ananda Mukerji: Good afternoon everyone and thank you for joining this call. There is a presentation which I will take you through and should be available to you on WebEx. So, let me take you through the presentation and then we will open it up for Q&A.

I turn to the first slide on the numbers. On slide 4, if I look at our numbers in this quarter, the revenue from operations has gone up from Rs 4079 million to Rs 4250 million from the previous quarter, which is a 4.2% Q-o-Q growth while the comparison with the Q2 of the previous year shows a 53.8% year-on-year growth, comparison to that number obviously is not meaningful because there was the MedAssist acquisition which happened in the second half of last year. So, I think we should focus on the Q-o-Q growth numbers, so Q-o-Q it is 4.2% improvement, increase in the revenue. The operating EBITDA has moved from 14.8% to 15.4%, and operating EBIT has improved from 9.4% for the quarter to 10.2% in this quarter. So, overall we have seen a growth in revenues and we have seen an increase in the operating EBIT from Rs 38 crores to Rs 43.3 crores as also an improvement in the operating margins. I will talk in more details about this as we go along.

Turn to the next slide, for the half yearly performance, for the whole half of the year, we have shown 11.2% from the previous half and the margins have moved from operating EBIT from 10.2% from the previous half year to 9.8% for this half. If I look at the Q-o-Q growth of 4.2% in rupee terms, it is 1.3% in US dollar terms and this includes a cross currency impact of 3%, so without that, excluding the cross currency impact, the US dollar growth would be 3%. Now, this growth has come out from a favorable currency, you know, which has been partly compensated by the lower covered rate as also from ramps of clients primarily in the telecom sector including in the domestic business. The negative for us continues to be the sluggishness in the collections business, and we will talk about this as we go along. The operating EBIT margin, as we had discussed in the last call, we were expecting to see our margins improve over the next two quarters. We had given a sense of 150 to 200 basis points over a period of time. In this quarter, we see 80 basis points improvement. This is largely on account of productivity improvement that we mentioned in the last call, we have initiated a number of steps over the last two quarters actually for looking at our operating efficiency and focusing on improvement and that is something which has happened and we continue to see traction on that front and clearly SG&A leverage, both the SG&A in absolute terms as also in percentage terms has come down as also lower depreciation as some of our older centers have now become fully depreciated and the absolute depreciation is coming down. The negative factors have been both the cost of growth on account of some of the large ramps we have been doing in the domestic business as also volume fluctuation from some of our customers in that segment and the lower margins in collections. Collections business, we are seeing liquidation concerns on both sides and we have seen negative pressure on that aspect. As also, there is a forex loss on receivables due to the dollar rates being lower than the accounted rates. Just want to draw your attention to the FCCB accounting principles and we have early adopted accounting standard AS-30 with effect from July 1st. This standard becomes recommendatory from April 2009 and mandatory from April 2011, but in line with ICAI's recommended best practices, we have decided to early adopt this standard. Now, the impact of adopting this standard is largely on the FCCB and as the proceeds of the FCCB were used towards, investments in what is a non-integral foreign operation, which has obviously got foreign currencies, dollar-denominated cash flows, FCCB is treated as a hedging instrument and accordingly the translation gain / loss on FCCB due to exchange variations is recognized as a translation reserve account in the balance sheet. So, as opposed to the earlier quarter where we were marking it to market based on the exchange rate provision in the P&L and there was an impact of 80 crores in last quarter, this impact is no longer there as the accounting standard 30 requires us to treat this difference on the translation reserve account in the balance sheet. The other requirement of AS-30 is that the premium repayable on redemption has to be amortized over the period of the bond as against our earlier policy of charging the entire premium payable upfront. The impact of this is something which we have mentioned in our release which is that this is about Rs 1083 million in the net profit, net profit would have been lower had we not adopted the AS-30 accounting standard. Foreign exchange hedges, the outstanding hedges is at 145 million dollars as on September 30, 2008, 100% coverage of the FY09, 65% on FY10, and 25% coverage of FY11.

Some of the operating parameters, we are currently at just under 20,000 employees as on September 30, 2008. Net addition of 1223 employees in Q2 of FY09. This compares with the previous quarter of this year, previous quarter, Q2 of the previous year, there was actually a net reduction in our headcount of 230, which is compensated by the addition of the MedAssist employees during thar quarter, and if I look at it on the first half, we added 2,200 employees this year compared to the net add in the first half of previous year of 688 employees. Attrition, Q2 annualized attrition is higher than the Q1 and this is largely a one-time impact on account of involuntary attrition due to ramp-down of one particular program and because we shifted the program from one particular delivery location to another. Excluding the impact of that, the Q2 FY09 attrition would have been largely steady at 39.8%. We are currently seeing some softness in the labour market and our attrition levels are coming down and we should see the impact of that in the current quarter. Our seat capacity is at 15,538 seats worldwide and a seat fill factor of 75% for Q2 compared to 76% from the previous quarter. In terms of revenue mix, if I look at the client concentration, the top 5 clients account for

32% of our revenues, up marginally from the 31% in the previous quarter and this is in account of the growth of our top 5 customers and this is down from the corresponding quarter of the previous year of 45%. The largest client contributed 10% of our income services in Q2. Revenue from geography has largely been stable, a little increase in the US from 61.8 to 62.3 and India going up from 10.2 to 10.7 and UK has come down in percentage terms from 27.9 to 26.8. The revenues by vertical between the previous quarter, healthcare is more or less stable, gone up marginally from 39% to 39.1%. BFSI has come down from 27.7% to 25.7% and telecom and media has gone up from 30.8% to 32.7%.

Turn to the business outlook and if I look at segment by segment, on the healthcare side, this contributes to about 39% of our revenues. On the payor side, we have had one process ramp-up in this segment. We haven't had any process ramp-down on the payor side. On the provider side, which is the MedAssist business, we have had 17 new contract additions during the quarter. The MedAssist integration is something we have been doing over the last several quarters and is on track. We are integrating various functions systematically as also rolling out our technology as also process excellence and operating efficiencies out there.

The healthcare business is largely stable. We have not seen too much impact of economic slowdown on this segment and the outlook is positive with large clients basically looking for cost savings from us and the companies on payor side for whom we are working onshore, are exploring offshore solutions, albeit cautiously. The provider side of the business, we are seeing pipelines basically growing and we are likely to see increased growth with the increased cross-selling happening in this segment.

On the telecom side, which is 33% of our revenue, we have had two new deals which have been signed up and for which revenues will start accounting on Q4 and ramp up in Q1. Three process ramp-ups and no process ramp-down. We have commissioned a new delivery center in Chennai with 500 seats and three new delivery centers are expected to be commissioned in Q3. Domestic clients are continuing to show good growth momentum with new processes as also new business being added. Volumes from the international clients are stable. After a period of couple of quarters of relative stable revenues, we are starting to see ramp-ups taking place in some of our international clients in telecom.

The BFSI segment as I mentioned is 26% income from services. Here, we have had one new deal and one process ramp up and two processes have ramped-down in this quarter. Just to give you a perspective of the business, we don't have any exposure to investment banking or sub-prime mortgages. Out of the 26% of the revenue, 3% comes from insurance which is general and life insurance companies in the UK and India, no US exposure. 4% is from mortgage, this is a leading UK bank's prime portfolio. We have no sub-prime exposure there. 19% is from banking including 11% US collections and the remaining is retail banking across India, US, and UK. We have not had any change of control at any of our large existing clients in this space. In terms of current outlook, the BFSI collections environment for the last few quarters has been under pressure and will continue to be in the balance year. We expect continued stress on liquidation rates and pressure on profitability and we are monitoring the situation closely and taking corrective action at the operating level and in terms of juggling the portfolio we work, we select on a real time basis here. Deal flow overall from the BFSI segment is sluggish while there are deals pipeline and there are deals under discussion, but deal closures out here are slow and we are not seeing a whole lot of new business coming out of this sector at this moment.

In terms of business outlook, our existing business as you are aware, volumes are linked to our client's business cycles. If I look at different kinds of work which we do for them, on the origination side wherever there is involvement in processing, new customer acquisitions, the volumes are on the softer side; however, it is largely stable on the servicing side. Of our top 10 clients of the company, 7 have grown in this fiscal; however, the amount of growth is slower than what we had expected in the beginning of the year. In terms of new business, the pipeline is fairly healthy particularly in telecom and healthcare, but, however, delay in decision making process and deal closures is affecting the pace at which the pipeline is getting translated into deal closures and new revenues. Healthcare pipeline is growing both on payor and provider segments and in telecoms we see traction in domestic and in the UK market. BFSI as I mentioned, the movement of the pipeline is slow. Currency exposure, we have been significantly hedged in FY09 at the beginning of the year, strengthening US dollar is not providing us a significant upside for the current year, but obviously as we cover forward at higher rates, it will have an impact as we go forward. The weakness in the pound and the rupee does have a cross-currency impact on our numbers.

Given the slowness in volume growth from the existing customers as also the delay in new pipelines translating into revenues, we are revising our revenue guidance as at 21% growth in dollar terms and 32% growth in rupee terms. This is from the original guidance of 33% to 38% in US dollar terms which we had given in the beginning of the year. This above guidance factors in a 3% adverse impact on account of cross currency movement. Excluding that, if one were to look at without that impact, it would have been 24%. So, roughly about, I would say somewhere around 10% down from what is the growth rate which we had thought we would have at the beginning of the year. The operating EBIT margins for the full year, we expect to be in the range of 10 to 10.5%. We are seeing margins improve. We have seen 80 basis point improvement in this quarter and we think that the benefits of that is going to come over the next several quarters and we should see on a secular basis our margins improve and we have said last quarter that we expect 150 to 200 basis point improvement. We feel confident that that margin improvement will happen; however, there will be as always, you know, quarter-on-quarter fluctuation in those margins related to volumes and ramp-ups and ramp-downs. In this particular quarter, we have large ramp-ups taking place on both our domestic business as also some of our other clients in the UK and India, so we may see some softness in the margins the coming quarter, but overall we expect for the year it would be ending margins somewhere between the 10% to 10.5%. So, with that, I will hand it over for questions.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants connected to India bridge who wish to ask questions, please press *1 on your telephone keypad. Participants connected to international bridge may kindly press 01 on the telephone keypad. On pressing *1 and 01, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 and 01 now. First in line, we have Mr. Sujit Joshi from Irevna. Over to you sir.

Mr. Sujit Joshi: Hi, good afternoon gentlemen. First question is what was your average US dollar exchange rate for the second quarter?

Mr. Farid Kazani: It is Rs 42.70 for Q2.

Mr. Sujit Joshi: Okay. And you mentioned 145 million dollar of forex hedges. Could you just tell us what rate is that and how is the breakup of various currencies probably?

Mr. Farid Kazani: The 145 is the total cover as of September end.

Mr. Sujit Joshi: Okay.

Mr. Farid Kazani: And that is covered in terms of 100% for the second half of this year. It covers 65% of exposures for the next year FY10 and 25% in terms of exposures to FY11. In terms of the rate, roughly Rs 42 is the rate for this year, goes up to 43, and it goes up beyond in FY11 to almost 43.50.

Mr. Sujit Joshi: Okay. And a mild clarification on your guidance, you had just mentioned that around 21% growth in US dollar terms, that would literally translate to, you know, almost flat to negative growth for the second half of FY 09. Is that what you are anticipating?

Mr. Ananda Mukerji: Can you repeat that question?

Mr. Sujit Joshi: Yeah, my question is related to your guidance. You have now mentioned that you will be having about 21% Y-o-Y growth in US dollar terms, so that would likely translate to almost a degrowth in your top line for the second half of the year, so is that what you are anticipating?

Mr. Farid Kazani: No, if you look at the guidance, we said 21% in terms of dollar and if I add back the cross currency movement, it is actually 24% in dollar and 32% in terms of rupee. We have achieved the first half at roughly around 832 crores, so if you work back the rupee number, you will get…there will be some growth definitely happening in Q3 and Q4.

Mr. Sujit Joshi: Okay. Okay, thank you, sure. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Ms. Anna from CQS, Hong Kong. Over to you ma'am. I repeat, Ms. Anna from CQS, Hong Kong. As there is no response, we will move on for the next question. Next question comes from Mr. Santanu from ETIG. Over to you sir.

Mr. Santanu: Yeah, good afternoon sir. Hello…

Mr. Ananda Mukerji: Yeah, please go ahead.

Moderator: Please go ahead sir.

Mr. Santanu: Yeah, just wanted to check this BFSI segment, the contribution is falling from quarter to quarter, can you tell something from there? Hello…

Mr. Ananda Mukerji: Yeah, is your question on BFSI percentage falling?

Mr. Santanu: Yeah, correct.

Mr. Ananda Mukerji: Yeah, BFSI percentage is falling, as I mentioned, it is a business which is there have been some ramp-downs in the previous quarters which we had mentioned in the last earnings call as also the fact that the collections business is giving us less revenues at this point in time on account of the fact that, you know, that our liquidation rates are down, both of which is resulting in collections, the financial service as a percentage of our revenue is coming down.

Mr. Santanu: Okay. So, can you expect it to be further coming down in the coming quarters?

Mr. Ananda Mukerji: I think it should be stable at this point. We are not seeing anything coming down at this point. It should be largely stable.

Mr. Santanu: Okay. The second thing is regarding this accounting of the FCCB, do you also follow the AS 11?

Mr. Ananda Mukerji: No, we are following AS 30. I will ask Dinesh to explain.

Mr. Dinesh Jain: As soon as we follow the AS 30, the AS 11 is not going to be followed. It contradicts the AS 30.

Mr. Santanu: Yeah, because then you are following the Schedule VI to the Companies Act.

Mr. Dinesh Jain: Absolutely, absolutely. Once you adopt AS-30, the AS 11 is not required to be followed.

Mr. Santanu: Okay, okay. Thank you very much.

Moderator: Thank you very much sir. Next question comes from Mr. Srivathsan from Spark Capital. Over to you sir.

Mr. Srivathsan: Yeah, hi. Just wanted to get some clarification on the drop in guidance. We have cut our guidance by close to 9% to 10%. Just wanted to know is this the softness that we see mainly in the BFSI and telecom space or what are the reasons behind cutting the guidance, which vertical is predominantly contributing to the cut of the guidance?

Mr. Ananda Mukerji: Yeah, see as I mentioned, at the beginning of the year, the growth we had forecasted was based on both growth in volume from our existing business of which we do work. Because we handle the back office of our customers, the volume of business we do for them is dependent on how their business actually performs. So, if their business does not grow in the pace at which we anticipate, then our volume of revenues which we get from that client also gets impacted. So, while as I mentioned our clients have grown, 7 out of the top 10 customers have grown revenues in the course of the year, the growth has not been to the extent which we thought and so therefore to that extent, our revenues are coming in lower than what we had originally thought. The second impact is the pipeline which we expected to be converted into revenues, that is taking longer than what our original anticipation and it is actually, I would say it affects in all the verticals we deal with, least so in healthcare and more so in BFSI, but to some extent, you know, clearly both, you know, in telecoms also if our customers are seeing slower growth and reduction in ARPUs from their customers and reduction in growth in customers, so to that extent our business does get impacted to some extent.

Mr. Srivathsan: Okay. Another thing is that we are almost two months into this quarter, just wanted to know what is the sense you are getting in the collections business, because historically if I remember correct, this is the strongest quarter for collections. What has been the trend like, typically because we get a large chunk of revenues in this quarter from collections? What is the sense you are getting?

Mr. Ananda Mukerji: No, we actually don't see a large amount of revenue from the collections in this quarter. We see a large amount, large increase in revenues from collections in the fourth quarter because the fourth quarter is the tax season and that is the time when typically, people who have debt, clear-off their debt because they get the tax refund from the government. That upswing comes in the fourth quarter, not in the third quarter. In fact, third quarter tends to be lower than other quarters because this is the time when also consumers, tend to spend money on things like Christmas and the festival season. So, collection actually is lower in Q3 compared to Q4. So, Q4 is when we actually see the upswing in collections.

Mr. Srivathsan: Yeah. The other operating income has shown a negative, just wanted to know what is the charge there?

Mr. Ananda Mukerji: I really can't hear you very clearly. If you are on a speaker phone, do you mind picking up the phone.

Mr. Srivathsan: Yeah, sure. Just wanted to get a sense on the other operating income, it has been shown as negative other operating income, just wanted to know whether it is a forex loss or what it was?

Mr. Ananda Mukerji: Yeah, it is exchange rate. It is basically the fact that the accounting rate and the covered rate are different. On that, there is a loss because our accounting rate is higher than the covered rate.

Mr. Srivathsan: Okay. And then the charge for FCCB, the amortization of FCCB premium, what is this exact premium, is it the redemption premium you are amortizing it on a quarterly basis or what is it?

Mr. Ananda Mukerji: This is that…you are talking about the amortized cost?

Mr. Srivathsan: Yeah, the next question is regarding the amortization of the FCCB premium.

Mr. Ananda Mukerji: Yeah. Dinesh

Mr. Dinesh Jain: Yeah, we are amortizing the premium and then charging to the share premium account.

Mr. Srivathsan: So, it is not passing through the P&L?

Mr. Ananda Mukerji: No, I think he is asking about this amortized, the P&L charge of 5 crores which is there.

Mr. Dinesh Jain: No, there are two components to that. There is amortization to the extent of a contractual rate of FCCB which have been charged off through share premium account and due to the fair valuation change on our FCCB value, the difference is amortized through the P&L, so the charge of Rs 5.1 crore is basically on account of that.

Mr. Srivathsan: Can you just explain it a little bit more in detail.

Mr. Dinesh Jain: The AS-30 accounting suggests you to basically do the fair valuation of the debt liability and once you do the fair valuation at the inception date. The maturity amount and the present fair value has a gap and that gap needs to be bridged in the tenure of the liability and this is the charge which is basically the gap bridging which will be getting charged through P&L.

Mr. Ananda Mukerji: Yeah, basically what has happened is that AS-30 requires us to fair value the FCCB and if you remember the fair value, the FCCB has issued us a 6.75% yield, that yield is lower than the market yield which was prevailing at that point in time. So, therefore the fair value of that debt is lower than the actual face value of the FCCB. That difference which is treated as the option value of the FCCB has actually required us to write that down, write that back in our P&L and that difference has to be bridged over the duration of the FCCB. So, at this point in time, in the balance sheet, there has been an adjustment where the 275 million dollars which was being recognized as a debt in our balance sheet has been reduced to I think 258 million dollars on account of the fair valuing of the debt and that 17 million dollars which is the option value has to be written off over the period of the debt.

Mr. Srivathsan: Okay, sure, sure. I just wanted to get, what is the sense you are getting on the pricing scenario that has been happening because we have been hearing that here and there, there has been some cases of irrational pricing happening in the market. Just wanted to know what you are seeing.

Mr. Ananda Mukerji: See, pricing is largely stable, we have a lot of customers as you are aware and we have sporadic cases of customers asking for price reduction, but by and large, you know, pricing is stable, but a lot of customers are looking for more efficient ways of delivering services to them and asking us to explore options of evaluating other locations or other ways of delivery which will reduce their cost. For example, we have customers for whom we are delivering work onshore in the US, who are saying that if we move some of those processes to India and they are prepared to take that decision to move the process outside of their location, then what is the price at which we can do it. So, there are some of those discussions taking place by which our customers could reduce their cost. Our customers are obviously under pressure to reduce their cost, but the focus is really on trying to, you know, how to find ways in which we can deliver it more efficiently by which we can give them the benefit.

Mr. Srivathsan: Okay. Any risks of bad debt or provision as we speak at this point of time?

Mr. Ananda Mukerji: No, bad debts and provisions, there is nothing which is out there. We follow a normal policy of accounting for any bad debt which is…any debt which is outstanding more than 180 days. At this point in time, there is nothing significant.

Mr. Srivathsan: Okay. What was the, lastly, cash balance and debt outside of FCCB?

Mr. Ananda Mukerji: Can you repeat that?

Mr. Srivathsan: Cash and debt outside FCCB?

Mr. Farid Kazani: Cash was around Rs 53 crores as of September and the other debt is 14 million dollars.

Mr. Srivathsan: 14 million dollars.

Mr. Farid Kazani: Yeah, which is Rs 66 crores actually.

Mr. Srivathsan: Okay. And then just one last question, just saw a news clipping on the Northern Ireland, is this something that has been planned and what could be the extent of tenure you could look to ramp-up those 160 or 200 employees you might add up in Northern Ireland.

Mr. Farid Kazani: I think can you repeat your question because we really didn't get it.

Mr. Srivatsa: In the Northern Ireland ramp-up, just wanted to know because that generates kind of a branch income for us, just wanted to know what could be the potential timeframe you are looking at for ramping up those 160 employees.

Mr. Ananda Mukerji: Okay. Northern Ireland, we work out there with two customers and we have two delivery centers out there. We are getting growth in business from one of the existing customers and we are ramping up operations in one of our existing centers.

Mr. Srivatsa: Okay, sure. Thanks a lot.

Moderator: Thank you very much sir. Participants are requested to use their handsets while asking a question. We will move on for the next question. Next question comes from Ms. Anna from CQS, Hong Kong. Over to you ma'am.

Ms. Anna: Yes, thank you. Could you hear me gentlemen?

Mr. Ananda Mukerji: Yes, we can.

Ms. Anna: Alright, because I was trying to speak to you just now, you couldn't hear me. Yeah, so I was just trying to understand in terms of any further capital expenditure plans that you have in addition to what you had previously going forward?

Mr. Ananda Mukerji: Yeah capital expenditure plans are around 20 million dollars is the planned capital expenditure for the year, so which I think has largely been committed at this point. As I mentioned, this is pretty much all of it is for setting up new centers and for capacity. So, that is more or less committed for the year is about 20 million.

Ms. Anna: And those would be mainly in India or also in US?

Mr. Ananda Mukerji: Largely in India. We have, as we mentioned, there is some growth which is taking place in the US and the UK as well, so there is Capex in those geographies as well, but I would say the majority of it is in India.

Ms. Anna: Okay. And just one more question, there has been a lot of write-up about the in addition to the sale of Metavante in the company's stake; also other shareholders are looking at that also. I was just wondering whether you could update us on the status of that and if it were to happen, it would trigger the change in control clause in the FCCB and, you know, what would be done if that is the case.

Mr. Ananda Mukerji: Yeah, well I can't comment on shareholders' issues at all. So, I won't be able to comment on that, but I think at this point in time, you know, given where the valuations are, I think it is unlikely that anybody will buy or sell shares at this point.

Ms. Anna: Okay. And I guess RBI recently put out a set of some guidelines, but it is not very clear. Just wondering whether, you know, if the opportunity arises and company, you know whether you consider buying back some of the FCCB with your foreign currency at all.

Mr. Ananda Mukerji: Yeah, I mean we are obviously aware of the guideline which has happened and while will continue to look at options and opportunities around that, our convertible is due only in 2012. So, at this point in time, we are not really, you know, looking actively at doing anything out there because, you know, if the convertible was due in the next year or even the year after that, we might have felt, you know, there is a need for us to think about what we have to do with that liability, but given it is

4 years in the future, we don't really think there is any need for us to do anything right now.

Ms. Anna: Okay, thank you very much.

Moderator: Thank you very much ma'am. Next question comes from Mr. Robin from Royal Bank of Scotland, Singapore. Over to you sir.

Mr. Robin: Hi there. Thanks for the call. I just wanted to get a bit more color on the two process ramp-downs. One of those, does that relate to the sub-prime credit card company that was winding down or say consolidated their suppliers. What does the other one relate to?

Mr. Ananda Mukerji: Yeah, one is related to US credit card business ramping down in relative terms and the other is an Indian bank operation which we are doing, that kind of work which we were doing for them is not being done any longer and so therefore it is ramped down.

Mr. Robin: So, it is for the Indian one, they have just closed that line of business, have they?

Mr. Ananda Mukerji: The Indian one was not related to credit cards.

Mr. Robin: Okay. But I guess I am trying to understand if it is the bank that they closed the line of business or whether someone else won that pitch?

Mr. Ananda Mukerji: No, we were doing basically origination work for them in the Indian bank one, but I think the overall origination volumes had come down and so therefore the need for that work came down.

Mr. Robin: Okay, understood. And so the FX impact, if I look at the first quarter to June, that was the 800 million impact from foreign exchange variation, I understand that is not going through reserves, but what is the equivalent number for this quarter?

Mr. Ananda Mukerji: Yeah, the equivalent number is 1083 million.

Mr. Robin: Say again, sorry.

Mr. Ananda Mukerji: 1083 million.

Mr. Robin: 1083, okay, and that takes it to what exchange rate, 47?

Mr. Ananda Mukerji: That's right.

Mr. Robin: Okay, lovely. Thank you very much. That's it from me.

Moderator: Thank you very much sir. Next question comes from Ms. Lori Woodland from Ferox Capital Management, UK. Over to you ma'am. I again repeat, Ms. Lori Woodland from Ferox Capital Management, UK. As there is no response, we will move on for the next question. Next question comes from Mr. Nimesh from MF Global. Over to you sir.

Mr. Nimesh: Yeah, hi sir. I just wanted to know what was the dollar term revenue number, for excluding MedAssist for this quarter as well as for the last quarter.

Mr. Ananda Mukerji: Yeah, we don't give, business segment wise numbers separately, so I won't be able to give that to you, but MedAssist continues to grow and we are seeing, you know, pipeline improving from that. If we look at our overall healthcare, that business has remained stable and so that is growing at the overall at which the other businesses are growing.

Mr. Nimesh: Okay. Can you give me the dollar term revenue number overall.

Mr. Farid Kazani: Yeah, it will be close to around…close to 100 million dollars for the quarter.

Mr. Nimesh: 100 million dollars. And could you give me the relevant figure for the last quarter, Q1?

Mr. Farid Kazani: Yeah, it will be close to little less than 98 million dollars, so it is a 1.3% growth in dollar terms between previous quarter and this quarter.

Mr. Nimesh: Okay. One more thing, can you also, you know, point out what part of your business comes from UK, I mean is it only from BFSI or it is telecom and healthcare also?

Mr. Ananda Mukerji: No, there is no healthcare element in the UK. Healthcare is entirely in the US.

Mr. Nimesh: Okay.

Mr. Ananda Mukerji: Between telecoms and BFSI, the largest part is telecoms, Telecoms is the predominant part, I don't have the breakup off hand, but we can give it to you.

Mr. Nimesh: Okay, I can come back to this later on. But also I wanted to know what part of your geography saw improvement in margins?

Mr. Ananda Mukerji: I am sorry, what part of?

Mr. Nimesh: Your geography saw improvement in margins which contributed higher to your margins.

Mr. Ananda Mukerji: I think we are seeing margins improvement in India from the productivity improvement which we had started. We are seeing margin improvement in some of the US operations with the integration of the US businesses that we are doing and UK has also seen margins improvement. So, we have seen margin improvement across all the geographies but for different reasons in different geographies. There is obviously a big focus right now given the fact that growths are slower, a big focus on productivity improvement and efficiency. I would say across the board, there is improvement in margins. I would say the only place where margins have not really is the collections business and that is because of factors related to the market environment.

Mr. Farid Kazani: The UK breakup business between the vertical, we have 9% in the BFSI.

Mr. Nimesh: Okay.

Mr. Farid Kazani: Telecom and media is 17.7% and others is 0.8%.

Mr. Nimesh: Okay. One more thing on the billing rates, are you seeing any kind of pressure in any of the geographies or in any of your processes apart from collection business, any significant renegotiation on pricing?

Mr. Ananda Mukerji: Yeah, I answered that a little while back when somebody else asked. I think we are saying that by and large overall we are not seeing clients looking for reduction in rates, but there are a few sporadic cases of a customer who comes and says they want a rate reduction and can we give it, but a lot of customers are looking for asking us can we deliver it more efficiently if we are given flexibility in terms of delivery locations and how we deliver it, in terms of the way we utilize our assets, way we utilize our people, locations at which we deliver it, that is something which we are obviously discussing.

Mr. Nimesh: Okay. And which one industry you feel is more vulnerable to the overall volume or overall activity, you know, like you said that one of your customers in India saw lower activity and hence, you know, there was a ramp-down. So, can you cite any other area of your business?

Mr. Ananda Mukerji: Yeah, I mean it is no surprise that the part of the business which has the most pressure on is in the BFSI segment. I think that is the industry which is facing the most pressure because clearly as that industry's volumes are down, so therefore business volume opportunity for us is at this point low. So, that is where I would say the biggest impact takes place. Having said that, I think it is only a phenomenon which we are going to continue to see for a while now until the market stabilizes and the need for cost efficiency from our customer's side becomes a more important factor than what is currently occupying them, in terms of, issues of capital and survival and so on and so forth.

Mr. Nimesh: Okay. Finally, I just wanted to know what is your stake in MedAssist, is it 100% or there is some stake left?

Mr. Ananda Mukerji: No, we own it 100%.

Mr. Nimesh: 100%, okay, thanks a lot.

Moderator: Thank you very much sir. Next question comes from Mr. Krudant from Value Quest. Over to you sir.

Mr. Krudant: Hello.

Mr. Ananda Mukerji: Yeah, hello.

Mr. Krudant: Sir, your FCCB is convertible at what price?

Mr. Ananda Mukerji: Rs 92.3.

Mr. Krudant: And in 2012 right?

Mr. Ananda Mukerji: That's right.

Mr. Krudant: Sir, your forex which is of 145 million dollars is at Rs 42?

Mr. Farid Kazani: There are covers basically for the US dollar and for the pound sterling. This 145 is spread across FY09 cover, FY10, and FY11.

Mr. Krudant: Okay.

Mr. Farid Kazani: The dollar rate is between 42 to 43 and the pound rate is almost at around 1.8 to a dollar.

Mr. Krudant: 1.8 per dollar.

Mr. Farid Kazani: Yeah.

Mr. Krudant: And sir, what are your employee net additions planned for this year, for second half?

Mr. Ananda Mukerji: We don't give forecast of headcount additions, but as you would have seen we have added headcount, significant headcount in this quarter and in the first half of the year. All I would say that we continue to add headcount at this point in India, US, and UK.

Mr. Krudant: Okay. And sir, can you tell me what was your capacity utilization in this quarter?

Mr. Ananda Mukerji: Seat fill factor was 75% which means, you know, we are using 75% of the seats which are available. I am making a distinction between seat utilization in terms of hours of utilization. This is actually; the seats are being used in any form.

Mr. Krudant: Okay.

Moderator: Are you done with your question sir

Mr. Krudant: Yeah.

Moderator: Thank you very much. Next is a followup question from Mr. Sujit Joshi from Irevna. Over to you sir.

Mr. Sujit Joshi: Hi. Just one final question, you had mentioned your growth guidance of around 21% in US dollar plus 3% due to cross currency, could you just split that, excluding MedAssist, how much would that be?

Mr. Ananda Mukerji: Yeah, I think the organic growth would be about 9% if I exclude the growth which has come due to MedAssist being there for the full year in this year as opposed to six months in the previous year. If I look at it on organic terms, it would be 9%.

Mr. Sujit Joshi: So, that is of the 21%, 9% would be from organic.

Mr. Ananda Mukerji: That's right, from organic.

Mr. Sujit Joshi: Okay, great. Thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press *1 in the telephone keypad. Participants connected to international bridge may kindly press 01 on the telephone keypad. Next is a followup question from Mr. Srivathsan from Spark Capital. Over to you sir.

Mr. Srivathsan: Hi. I just had a question on the realized rate, is it possible to let us know like it is already 1-1/2 months for this quarter, so what has been sort of realized rate in the current quarter, I mean assuming that the exchange rate stays at Rs 48-49, so what will be realized rate for December quarter?

Mr. Ananda Mukerji: Srivathsan, you are really echoing and we really can't hear what you are saying. Can you try to pick up the phone and can you just speak a little slowly because there is too much of an echo, if you don't mind.

Mr. Srivathsan: Sure. I just want to know what will be the probable average exchange rate realized during the quarter for, I mean for December quarter, like will it be about, will it continue to be about Rs 43 or will it be about Rs 48-49?

Mr. Farid Kazani: We have assumed Rs 48 per dollar for the next two quarters, Q3-Q4.

Mr. Srivathsan: So, that is going to be the average realized rate is it?

Mr. Farid Kazani: Yeah, that is the accounting rate that we have taken.

Mr. Srivathsan: Okay. And so, the loss that we might have due to the entire realization at Rs 42-43 because of the hedges will be there in the other operating income.

Mr. Farid Kazani: Correct, yeah.

Mr. Srivatsa: Okay. And FCCB 6.75% interest coming, which is a notional interest cost that has been debited to the securities premium account on a quarterly basis right?

Mr. Dinesh Jain: Right.

Mr. Srivathsan: Okay, thanks a lot.

Moderator: Thank you very much sir. I again repeat participants connected to India bridge who wish to ask questions may kindly press *1 on your telephone keypad. Participants connected to international bridge may kindly press 01 on the telephone keypad. Next in line, we have Mr. Shyam from DE Shaw. Over to you sir.

Mr. Shyam: Hello. yeah, I just had a couple of questions. The first one if I heard you right, you said your current cash at the end of the quarter was approximately Rs 63 crores.

Mr. Farid Kazani: Yeah.

Mr. Shyam: Hello.

Mr. Farid Kazani: Yeah.

Mr. Shyam: Yeah, I guess I am right, so that would be Rs 630 million. I see from the last quarter that is a drop of approximately of the same amount, Rs 600 million, if you could just explain what it was spent for?

Mr. Farid Kazani: The cash has gone towards repayment of debt. If you look at the other debt other than the FCCB was around Rs 35-37 million in the last quarter in June ended 30th June 2008 which has been repaid and the debt now stands as of 30th September at 14 million dollars. So, the cash has actually gone towards payment of the debt.

Mr. Shyam: Okay. So, what is your total debt at current, I mean including the FCCB and everything.

Mr. Farid Kazani: Total debt including FCCB is roughly 290 million dollars.

Mr. Shyam: Okay. And what were the operating cash flows like during the quarter?

Mr. Farid Kazani: It is close to around 12 million dollars.

Mr. Shyam: Around 12 million, okay. Again, I was wondering, there is not much information, I have gone through your presentation and everything, could you give some color on which of the verticals are mostly, I mean contribute the highest contribution to your EBITDA, I mean would it be healthcare or would it be BFSI. If I can get some color on what the margins are like in these various verticals.

Mr. Ananda Mukerji: I think, it is hard to give you a clear answer by vertical because there are many different segments we have, we have onshore business which we do in the US, business we do in the UK, business we are delivering out of India, you know, we have domestic business in India, international business in India, so there are many different segments in which we operate, so it is hard to give you a single sense across verticals as to where it is. I think it is probably I would say that at the operating EBIT levels, most of the business operates within a range. At this point, you know, collections business is clearly below the level which we normally get out there, but otherwise there is not a lot of difference by itself between the verticals.

Mr. Shyam: Okay. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Kunal Dayal from DSP Merrill Lynch. Over to you sir.

Ms. Mitali Ghosh: Hi, good afternoon, this is Mitali Ghosh. I was just trying to understand the reasons behind the cut in your dollar guidance, as in is it because, you know, how much of this is visible, so how much has actually been communicated to you by clients and, you know, next two quarters revenue that you have factored in, how much of that is actually visible to you and how much is, you know, sort of anticipated by you and then again, you know, within that, just trying to understand is it because of, you know, cut backs in work or is it because of ramp-ups not happening as expected in new deals.

Mr. Ananda Mukerji: Yeah, I think it is Mitali, because of ramp-ups which we were expecting to see happen in our existing customers. So, you know, whether it is new business segments being added or volumes of business, which we are expecting to grow on the basis of forecast which we had in the beginning of the year, those volume forecast being lower than what we had expected, so it is not so much cutback, I don't think they plan to cut back business, but they are not growing business in the same way as we thought they would grow at the beginning of the year. That is one impact. The other impact is clearly that, deal closures, some of the deals which we expected will close are still under discussion or are taking longer or are not happening and that is also delaying the revenues.

Ms. Mitali Ghosh: Right sir. In the next two quarters, you know, would you say…how would you describe the visibility for the next two quarters factored in?

Mr. Ananda Mukerji: Next two quarters are factored in based on what we see on hand, what business we see on hand and has been contracted, and we typically get revisions in forecast based on a rolling forecast basis. We have seen the forecast move from the beginning of the year and we have now factored in what we expect to see happening by the end of the year. I think the part which is for us is in an assessment to some extent is the collections business where really it is dependent to some extent how the environment behaves and our anticipation is that it would continue at the same level and not really improve in the next two to three or four quarters.

Ms. Mitali Ghosh: In fact, on collections, I think you had mentioned last time that you were actually seeing a pickup in volumes and you were looking to, you know, ramp up your collectors and train them. So, has the volume, you know, not picked up or I guess liquidation rates are down and has there been an issue in actually sourcing collectors?

Mr. Ananda Mukerji: I think we are trying to balance between the kind of paper we work on and therefore while there is a lot of paper on offer out there, we are making sure that we pick up paper on which we can make the kind of margins we want to make in this business at this point in time, but there is a trade-off to some extent between adding collectors and trying to add revenue and the impact on profits. Now, given the uncertainty in the environment right now, we are not, you know, we are not growing revenue at this point, and we would see how it evolves and decide whether we, you know, add more business data.

Ms. Mitali Ghosh: Okay. And finally just one last question, you know, if you were to, because BPO tends to be a fairly sticky kind of business apart from maybe the collections bit that you have, you know, how would you describe the part which is sort of discretionary, you know, which could be linked to origination kind of work.

Mr. Ananda Mukerji: Yeah, are you talking about financial service or generally?

Ms. Mitali Ghosh: Yeah, you know, overall or if you would like to break it by segment, you know, that is of course good as well.

Mr. Ananda Mukerji: Okay. If I break it by segments, healthcare is I would say is stable. We are seeing our customer volumes stable, we are not seeing any decrease in customer volumes. We are getting more business from some of our customers who are looking for reduction in their cost base and that is something we expect will be an opportunity for us, particularly with the present focus of the new administration in the US to look at the healthcare segment and trying to deliver healthcare more efficiently, we potentially see opportunities coming out of there in the future, but at this point in time, volumes there, we have not seen in reduction in volumes, we have seen growth in business coming there. On the provider side, we are seeing our business growing. We are adding, I mentioned we are adding a net number of new contracts with customers out there. We are also starting to get more traction on the cross-sell of the different service lines which we offer in the provider segment. As you would remember, we have 3 service lines there, eligibility services, receivables management, and collections, and there is actually a big opportunity for cross selling just these three service lines into the existing customer base as well, so we are seeing traction there. So, healthcare, I would say that volumes are relatively stable. On telecom side, you know, domestic business, it continues to grow. We have two large customers, one of which is growing significantly right now. We have also added another customer which will start showing us revenues probably from the fourth quarter onwards and on the BFSI side, the business volumes, if I exclude the part which is on the collection side, the rest of the business largely is stable. We are not seeing volumes down from any of them at this point.

Ms. Mitali Ghosh: Right. Actually Ananda, what I was also trying to just understand is how much of the work is discretionary, you know, in overall, how much would be sort of linked to origination or, you know, sort of new projects, just trying to understand how much is the kind that would have to continue in any sort of situation and how much, you know, could be relatively more volatile.

Mr. Ananda Mukerji: Yeah, see, I mean if I looked at our, you know, directly linked to origination, this quarter it was 0.9% of our total revenues came from voice outbound which is really linked to origination and the previous quarter it was 1.2% and that is the part which I mentioned was one program in the domestic banking industry which came down. So, we don't really directly do a whole lot of work in the origination. Having said that, some of the transaction volumes we handle, are linked to the volume of origination which happens in the business, but the bulk of what we do I would say is linked to customer service side in some form or the other. So, it is not really discretionary in that sense other than the fact that for example, if the number of customers come down, then servicing would come down, but what is happening for most of our customers is that their customer base is not growing, if I look at in the telecom side particularly.

Ms. Mitali Ghosh: And how much would be the voice-based customer servicing that would be embedded in your business?

Mr. Ananda Mukerji: Voice-based customer service, yeah, roughly about 35% of our revenues would be voice-based customer servicing.

Ms. Mitali Ghosh: Right. Okay, thank you so much.

Moderator: Thank you very much ma'am. I request the participants to kindly use their handsets while asking a question. Next question comes from Mr. Srivathsan from Spark Capital. Over to you sir.

Mr. Srivathsan: Hi. Just one question regarding the revenue guidance. When you say revenue guidance of 21%, would that include the other operating income?

Mr. Farid Kazani: Yeah, it includes the other operating income. That is the income from services and the other operating which is what you see Rs 429 Crore in the current quarter.

Mr. Srivathsan: And what was the dollar revenue last year including other operating income, what was that about, 328 million?

Mr. Farid Kazani: It was 323 million dollars.

Mr. Srivathsan: 323 is it?

Mr. Farid Kazani: For the whole last year, yeah.

Mr. Srivathsan: Is it sort of possible to give me your guidance just for the gross services income excluding the other operating income.

Mr. Farid Kazani: That is difficult at this point.

Mr. Srivathsan: Okay, thanks a lot.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Krishnan Akhileswaran for final remarks.

Mr. Ananda Mukerji: Yeah, just want to sum up before I hand it over to Krishnan. Thank you everyone for joining the call and if I were to, you know, overall sum up our Q2 numbers, I think we are clearly in a phase where there is relatively, moderate growth at this point and, while our customer base is stable and we are growing our business with our customers, the pace of growth has come down and we are gearing up for a relatively slower pace of growth for the next couple of quarters. I think the focus is really at this point in time on improving efficiency and productivity and improving margins and that is something we expect to see traction going forward. We do see opportunities continuing in the healthcare and telecoms area. BFSI continues to be relatively slow, but I think we are focusing as I mentioned on productivity and efficiency and the improvement in margins over the next few quarters will position us well as and when we see growth coming back for us in this business. With that, I hand it over to Krishnan.

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

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.