Firstsource Solutions Limited
Q4 FY08 Results Earnings Call

April 29, 2008

CORPORATE PARTICIPANTS:

Mr. Ananda Mukerji – Managing Director and Chief Executive Officer
Mr. Raju Venkatraman – Joint Managing Director and Chief Operating Officer
Mr. Rajesh Subramaniam – Chief Financial Officer
Mr. Michael Shea – CEO of MedAssist and President Healthcare
Mr. Farid Kazani – Financial Controller
Mr. Krishnan Akhileswaran – Head of Investor Relations

Firstsource Solutions Limited
6th Floor, Peninsula Chambers, Ganpatrao Kadam Marg, Lower Parel
Mumbai 400 013. India. Tel: +91 22 6666 0888. Fax: +91 22 6663 5481. www.firstsource.com

Moderator: Ladies and Gentleman, good evening I am Rochelle, the moderator, for this conference call. Welcome to the Firstsource Solutions Ltd Quarterly Earning conference. For the duration of this presentation all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal and operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Krishnan Head of Investor Relations. Thank you and over to you Mr. Krishnan**.**

Krishnan Akhileswaran: Thank you Rochelle, very good morning to 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 calls for the 4th quarter and full year-ended March 31st, 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 CEO and Managing Director.

Ananda Mukerji: Yeah, hi everyone.

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

Raju Venkatraman: Hi, this is Raju.

Krishnan Akhileswaran: Rajesh Subramaniam, our CFO.

Rajesh Subramaniam: Hello everybody.

Krishnan Akhileswaran: We have Michael Shea, CEO of MedAssist and President Healthcare.

Michael Shea: Good evening everyone.

Krishnan Akhileswaran: And Mr. Farid Kazani our financial controller.

Farid Kazani: Hello everyone.

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Krishnan Akhileswaran: We will be starting this call with a brief presentation providing and overview of the company's performance in this quarter followed by Q&A session. Please note that anything 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 that 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 CEO and Managing Director.

Ananda Mukerji: Welcome to the call every one. What we will do today is that I hope everybody has the presentation; it is in really 3 parts. The first part is really on the performance for the year and for the quarter. Then we have two sections in which we are giving specific updates on MedAssist, which was the acquisition we completed about 6 months back and just to give all of you a little bit of color and perspective into the business and where do we see it going. You are all aware of the stress in the collections business which we spoke about in the last quarter so we wanted to give an update to all of you in terms of what has happened in that business during this quarter. And then at the end we will give you an overall outlook for the next year.

So I will take you, I will do an introduction and then hand it over to Rajesh, to take you through the financials.

So by turning to Slide #4 to set the context this year has been a fairly challenging year in many ways. We have had the exchange rate movement which was adverse for most of the year. The US credit crisis and the impact it had on the collections business and the BFSI segment as a whole, where we have seen a lot of delays in decision making and deal closures getting deferred. We have seen a tight labor market during the year somewhat mitigated by our movement to the Tier II, Tier III cities, a strategy which we did in the beginning of the year. We are of course seeing some signs of improvement in the labor situation in the big cities now. So, our performance is in the context of what has been a challenging environment in the year, so we have grown our total income by 59%, operating EBIT has grown by 46%, and the profit after tax has grown by 35% from last year. So, it has been a

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reasonably strong growth in the year in spite of the business environment we have been in.

The second major feature in the year was the acquisition of MedAssist. This has significantly enhanced our proposition in the healthcare vertical. We see healthcare as a key vertical for us. It is a very attractive market segment in terms of size of the market, in terms of its characteristic that it is relatively free of business cycles and recessions. And we today have a fairly, one of the strongest propositions in this market segment. We have strong proposition in the payor market and with the MedAssist acquisition now we have a leading position in the US in the healthcare provider segment offering, in which they are offering services to over 800 hospitals. To finance this acquisition we did a convertible bond issue of $275 million.

We have spoken earlier about our global delivery foot print and our belief that there our customers are best serviced by a proposition, which involves both onshore and offshore delivery. In continuation of that, we have continued to grow our business and our delivery centers. We have 2 centers which came up in the US, 3 new delivery centers in India, and we started delivery from the Philippines so, several dimensions of our overall global delivery footprint have grown.

We have added about just under 3,000 employees during the year and the closing employee strength is a little over 17,300. We have made major progress in our process excellence and the focus on quality and improving our customer's processes and we won several awards during the year, the significant among which are the National Outsourcing Association Award in the UK for Telecommunication Outsourcing Project of the Year. We won 5 awards in Six Sigma IQPC awards for Process Improvements which we have carried off for our customers. And we also won an award at the Symbiosis Institute this year. And in the collection business we were named the Offshore Agency of the Year for a leading financial services client in the US collections business.

So all and all it has been a year where we have made progress in the various facets of our business. I think we are continued to be in a mode when we are

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you know building our business and building capabilities and creating building blocks for a strong business going forward. And I think we have made significant progress in all of that. With that I will hand you over to Rajesh to take you through the financial performance for the year and the quarter.

Rajesh Subramaniam: Thank you Ananda. The sections where I would be covering would be the financial performance on an annual basis which is comparing fiscal 08 over fiscal 07 and then I will touch upon the quarterly analysis and touch upon some of the other key highlights as to you know what we achieved over the year including some of the key metrics that we measure our business from.

So, if I take you to Slide #5 our total revenue from operations in fiscal 2008 was Rs.12,988 million compared to Rs.8,310 million in fiscal 2007 implying a growth of 56.3% year-on-year. Our operating EBITDA was Rs.2,339 million compared to Rs.1,656 implying a growth of 41.2% and an operating EBITDA percentage of 18%. Our operating EBIT growth was 45.7% and our PBT growth in 08 over 07 was 40% which is Rs.1432 million compared to Rs.1026 million. At the net profit level we ended the year with Rs.1316 million compared to Rs.973 million we implying a growth of 35.3%.

Let me take you to the quarterly analysis, if I take a look at the quarterly performance and I would like to set the context and when we updated the group in our last analyst call, where we had seen some challenges in our Q3 environment which we had commented on the turnaround that we would see in some of the performance metrics and I am happy to say that in Q4 some of the metrics that we had undertaken and which we had envisaged would turnaround have and that has reflected in the performance. So if I take a look at my total income from operations it was Rs.3,756 million compared to Rs.3,695 implying a 37.4% growth year-on-year and a 1.6% growth sequentially. The operating EBIT was 10.5% representing Rs.396 million compared to Rs.314 million in Q3 which was 8.5% again showing a 200 basis point improvement in margin.

At the net profit level we came in at Rs.210 million compared to Rs.206 million and you know I would like to focus the group on the mark-to-market adjustment we had to take on our loan book which was on the FCCB which we

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treat as a monitory liability of Rs.196 million. Now given the fact this is a 5 year one day instrument the maturity is out there, the accounting treatment requires us to show the mark-to-market element, but if I take a look at it from an operating performance basis, the profit after tax actually has grown by 97% quarter-on-quarter and 15% year-on-year if the said amortization was not evident in the P&L. So that is the context I would like to lay out from my operating perspective of the company.

The Slide #7 articulates the performance of the company on a total income basis, the context of setting the total income basis is when Ananda talks about you know what our future guidance is going to be looking like is the fact that there are certain uncontrollable elements in our business like the FCCB. So we would like to focus the analyst at the EBIT level. So, on a total income basis the context set here is a growth of 37.5% year-on-year and 0.6% growth on quarter-on-quarter on the income. The EBITDA in Q4 is up by 16.9% YOY and 6.2% quarter-on-quarter at Rs.659 millions with similar number on a year-on-year basis is a 59.1% growth in revenues at Rs.13,337 million compare to Rs.8,382 and a 55.6% growth in EBITDA at a margin of 20.2% representing Rs.2,689 millions. At the PAT level, we have come in as I mentioned at earlier at Rs.1,316 million representing at 9.9% margin and in the quarter we have added Rs.210 millions the representing a 1.9% growth on quarter-on-quarter and 14% growth year-on-year. Yeah so the drop in the profit metrics which is down by 39.8% as I had explained to you if I had normalized some of the other non-operating element of the business, we have actually represented growth in the metrics.

So, the other highlights of what the company has undertaken during the last year were the Barclays deal which we announced in March. We have transitioned a certain number of employees and entered in the long-term contract with Barclays. It is a 5 year deal and the revenue potential is $80 million roughly spread equally across the 5 years. This deal is an important milestone for us because it gets us a phenomenal footprint in the domain and it is a new customer, Barclays is the new customer for us. Our total employee strength of 17,369 is up by 279 from the December quarter, December 2007 quarter. The India-based employees have 13,159 and outside India is 4,210. The attrition post 180 days is 38.9% annualizing Q4 compared to 34.3% in Q3

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as Ananda had mentioned, we have expanded our delivery capabilities in India and we have added centers in Vashi in Bombay and with the Barclays deal we have managed to setup our operations Colorado Springs in the US. Our current fill factor is 73%; our seat capacity was 14,989 seats which is up by a 1,104 seats from December end.

Now let me focus here on some of the key metrics of our business, which is Slide 9. Our top 5 clients in Q4 contributed 30.2% of our revenues and the number was 37.4% on an annual basis for 08 and 51.4% in 07. This is a significant milestone for us because it is our endeavor to reduce customer concentration risk and you know this is an important element that helps to manage our business much better.

When I take a look at the geographical breakup in fiscal 08, US contributed 54.2%, UK was 35%, and India was about 11%. And on a Q4 basis, US is about 62%, India is 9.5%, and UK is 28.6%. The US growth year-on-year has largely been on account of consolidating the MedAssist acquisition. The revenues by vertical, healthcare which was 9% in fiscal 07 has increased to 30% in fiscal 08 and on a Q4 basis it is close to 40% again you know it is the consolidation of the MedAssist acquisition and the growth that we see in the healthcare business are the organic growth that we see in the healthcare business, which is fueling this momentum. Telecoms & Media which was 34% in fiscal 07 is 29% as of Q4, and we expect to maintain this kind of growth rates going forward. With this I will now hand it back to Ananda.

Ananda Mukerji: Yeah okay in the next section, I would request Mike Shea to give you an overview of MedAssist. We did speak about it a little bit at the time of the acquisition, but I think it would be useful for the group to understand the business context and where do we see opportunities out there, Mike is a veteran in this business, he has along with his colleagues setup this company and been running it successfully and is one of the largest companies in this space in the US. With that I will hand it over to Mike to take you through the next section of the presentation.

Michael Shea: Thanks to Ananda and hello to everyone. Let us take a brief look at MedAssist at a glance. We are on Slide 11. MedAssist has a strong market position that

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we built over 19 years in the attractive hospital revenue cycle segment. We are a market leader in the eligibility services and in fact we believe we are the largest in the market by magnitude of our closest competitor is 20% smaller. We are also one of the top players in receivables management and also hospital collection services. And this is a great market, it is economically stable and it is usually not affected by economic swings upward or downward, it stays pretty steady. We service a large and very diverse client base of Blue Chip Hospitals and Health Systems across the United States, some are large teaching hospitals and some are small royal facilities. They compose both the full profit and not full profit hospitals throughout the United States. In these hospitals we have long-standing relationships and we believe we have the industry leading retention rates with maintaining our customer base in performance issues.

We represent in excess of over 800 hospitals and over 250 physician groups. We are also recognized by US National Organizations for our excellent performance in the value proposition that we present. HFMA which is the Healthcare Financial Management Associations, has given MedAssist the peer review distinction which we have been approved this structure process validates the accuracy of our programs, the effectiveness in the marketplace acceptance, and the value of the products and services that we provide, we have been recommended and approved through their peer review process for all of our product lines.

In addition to that, the VHA has given MedAssist an endorsement for our eligibility services as a source provider of this particular product line that we offer. They have also endorsed our other product lines as well. I think it is important to point out here that each year they do a VHA customer satisfaction survey of which MedAssist is at the very top in customer satisfaction year in and year out in their survey.

MedAssist is, as Ananda had alluded to being one of the largest companies in the space in United States is one of only a handful that truly has a national scope in this highly-fragmented sector. MedAssist operates coast-to-coast with over 25 facilities, they span in the entire United States and that leads us to be uniquely positioned to service the larger hospitals in the national chains. This

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was a very simply put our philosophy has been a national scope with the local presence and it has worked very well for us. We have a strong financial profile and cash-flow characteristics. And last but not least as far as the blend for MedAssist we have a very strong and seasoned management team with over 200 years of combined experience.

Moving to the next Slide, I am sure that all of you would agree with me that that we are in a dynamic and growing marketplace with many opportunities. There are a lot of trends and we can talk about those but I think as we look at our healthcare customers, healthcare expenditures in United States continue to grow much faster than GDP which is a significant factor in the growth for our business. Our providers continue to face significant revenue and cost pressures as the self paid population increases, currently 46 million are estimated to be uninsured, there are additional individuals that are under insured which also affect our business. And we expect this trend to continue to grow specifically in an economic downturn here in the United States. So, as providers look to focus on their core services and reduce expenses, they are increasingly outsourcing multiple elements of their revenue cycle. If you look at the graphics here above, our services address all of these issues illustrated above and in a cost effective manner which allows our clients to focus again on their core services which is taking care of their patients.

Moving to the next Slide, at the time of acquisition our services spanned the entire revenue cycle. Our services addressed multiple critical points along this revenue cycle from prior to a patient visiting the hospital or previsit screening to the self-pay eligibility which is under insured or non-insured patients to pass the receivables management and collections. As you noticed, there are four arrows we break the revenue cycle into these four areas, patient services again, which is prior to a patient presenting for treatment. Eligibility, which is once a patient has presented and they have no way to pay the bill we research to find out if they might qualify for government programs, hospital programs or other type of issues or programs out there. Receivables management is really a cash flow management tool for our hospitals. And then of course the last one, which is once they account as gone through their hospitals cycle it has become a bad debt collection risk.

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Moving to the next Slide, together with Firstsource, we are developing a new value proposition in joint products utilizing skill sets from both MedAssist and Legacy Firstsource Companies. In orange you will see where these new products will fit into the revenue cycle, I would like to spend just a couple of minutes giving you an idea of where our thoughts are and how we are progressing in each of these areas. The first one is open enrollment, this is a payor based product, the contracts would be with the Medicaid health plans and the products will be to expand the covered lives within their current programs through new enrollments or reenrolling of individuals or consumers. In addition to that many of these patients are based on basic Medicaid but also qualify for social security disability programs in United States, that can be a very positive thing for the individual in which we can qualify them for a disability which will be a positive customer service product that managed care organizations will tell, but in addition to that they will receive incremental reimbursement because they now have an individual that has classified at the higher level for reimbursement.

The next point that I would like to talk about is listed to the scanning on your line. This is a process that we would contract with hospitals. It is a low cost offshore model, where we would to be indexing medical records and leveraging Firstsource offshore capabilities. We believe that this is a very viable product and are excited to give this to develop fully and to get to the marketplace in the coming quarters. The claims adjudication, this is also a contract that would be primarily be with hospitals where we review denied claims leveraging the experience of Firstsource but also leveraging the experience of MedAssist and developing a programs where we can determine why accounts have been denied for the payment in a faster, more concise manner based on the skill sets that we both bring to the table. Billing follow up is also listed. This is a contract that we currently do with a number of hospitals, but we want to take it to kind of a new level. And this contract would be with primarily with hospitals potentially physician groups, but we would leverage the Firstsource back office or the offshore model in this particular segment and focusing in on electronic filing or contacting insurance companies that may also have outsource their customer service call center to India. And this would be an opportunity for us to bring a lower cost solution through our customer base but also increase efficiency and performance.

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The important factor I think in this particular slide is that all of these product lines have the same decision maker of which we have solid relationships with at those 800 hospitals. So the opportunities are there, we are being very careful in how we develop these programs to make sure when we do launch them that the product is solid, that all of the potential issues had been worked out prior to taking this to market because I believe you only have one shot to introduce something into the market. And we are going to make sure that when it is introduced that it is a well thought out and very smoothly processed product. The last point on this slide is the revenue synergies that will be realized this primarily by the cross sale in all these areas, in claims denial, enrollment services and the electronic patient records or as I refer to it as scanning.

Moving on to the next slide titled as integration synergies and opportunities, on the previous page I talked about revenue or product opportunities, this page I want to reiterate the revenues synergies previously mentioned and after the first bullet point this is just a tremendous opportunity for us, but I would also like to talk about some of the cost based synergies, if you look at the second bullet point, low cost sourcing, analyzing which is the best areas near shore and offshore opportunities for our back office production staff such as the helpdesk which we have already done, looking at EDI, looking at data entries, looking at some of the collection aspects. We think there is variety of opportunities there, in consolidation of the US functional staff and eliminating redundancy, we have began to execute this. We have done it with the HR staff or consolidating that we have done it with our IT departments and purchasing has began to do that as well. And the accounting department is to follow. We think this is crucial for the success and for the efficiency of running North America is to be able to integrate and to find all of the synergies and just drive it directly to the bottom-line. Optimizing sales and the operating centers structure as well we are looking at that, we are trying to develop the best way to supercharge our sales organization but also looking for ways to cross-pollinate within the Legacy Firstsource System and to bring business to that side as well.

On the operating center side we believe that there is a considerable opportunity in the rationalization and consolidation of some of the offices, case

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in point here Louisville where we have two offices now at some points it makes sense to consolidate those two offices and to eliminate a redundant space in overhead and so forth. There are also some offices but I think that we may determine to close because they are not needed, we are looking at all of that to determine the best opportunities. Leveraging existing infrastructure, IT redundancy, disaster recovery, and CUBS operating systems all of these items are being looked at, at this moment to help us determine the best way to take North America and the healthcare vertical forward. And then of course one of my personal favorites is optimizing vendor contracts, anytime there is an acquisition, if you are being the acquired company or if you are acquiring a company there are opportunities to leverage your new volumes. And there are low hanging fruits such as looking at our high cost opportunity such as long distance as an example but there are many, many others and whenever the volumes are increasing we think there is opportunities to leverage our vendors and to negotiate with those incremental volumes. Bottom line is more volume, better pricing.

To briefly summarize, MedAssist is a market leader in this growing market, and we feel really good about our location and what the future may bring to us. We have a proven business model, experienced management team, that I believe will both lead this integration plan and our business plan in 09. Thank you!

Ananda Mukerji: Thanks Mike. So let me take you to the next section on the other updates which we wanted to give you on the collections performance. I will turn you to Slide #17. Clearly as Rajesh mentioned Q4 performance has been significantly better than Q3. We had a fair amount of stress in Q3 in terms of numbers, the performance has improved, part of it is due to the seasonality factor in the sense that it is a tax refund season in the US, but a significant part is due to the improvement in operational parameters as well due to the way we are handling the portfolios on which we collect.

The sub-prime crisis does continue to impact the consumer debt in the US quite significantly. All the leading credit card issuers have seen increase in their delinquencies and charge of rates. I think the general expectation is that this is going to remain the same or worsen for at least the first part of the year.

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And so we would probably see the pressure on debt and therefore the volume of debt which comes up on collection is probably going to increase. Liquidation rates continue to be stressed and this is something we had mentioned in the last call as well that the liquidation rates have come down and likely to stay down for the next few quarters. Although, there are some early signs that in certain segments we are finding that the debtor behavior maybe changing towards you know paying of credit card debt before mortgages in order to maintain access to liquidity, normal wisdom would suggest that when a customer has a access to money he would pay off his mortgage first and allow his credit cards debt to lapse but on the other hand the credit card is where he has access to liquidity so we are seeing some early signs that in certain segments some behavior is towards maintaining credit card credit lines which would maybe positive for us.

We are also seeing early signs of adjustment in the way the clients look at the business. They are clearly giving us more operational flexibility in terms of how we can settle outstanding and the payments plans we can accept. Some clients have started increasing the commission rates as well. The other thing we are seeing is that the clients are showing increasing propensity to sell their charged off debts, this would impact us just in the sense that some of our existing customers, the volumes of business they placed with us now instead of placing their business with us they would go out and sell that debt to an other agency. Now this impact is being mitigated by us adding a number of debt buyers into the client roster and you know we have seen that in many cases placement of debt that our clients have been doing have been pursued by debt buyers, we work for the debt buyer and some of it comes back to us from another source.

Turning to the next Slide in terms of what is the strategy we anticipate that there is going to be continued volatility in the business clearly it is dependent on the length and debt of the recession in the US and how quickly the client adjust commission rate to the new reality. So we expect profitability outlook to be uncertain for at least the next two quarters as far as the collection business is concerned. Our focus continues to be on strong operation performance focusing both on ensuring that our client rankings are maintained and we also focus on profitability. There are number of ways in which we do it including

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workforce realignment, in the frequent review of strategy of the individual portfolios as the characteristics is changing overtime, understanding the clients in terms of their experience across their entire portfolio and not just on the segments we work on to see if there are trends we can capture and increasing tactical use of India delivery capability to increase liquidation rate and the margins.

In terms of clients strategies what we are looking at doing is to focus and look also at the healthcare and telecom collections which has not been impacted by the liquidation decline, for example MedAssist collections that piece of the business has not seen any impact at all because customers pay their healthcare dues first and ensure that they can continue going to the hospitals or to their physicians. The other aspect is to increase our early stage collection business, which are usually on an input pricing basis. The Barclay Card deal which we spoke about earlier gives us strong capability in the early stage collections in the US and of course continuing to penetrate the large debt buyers as a means of increasing the market segment. So overall, I would say that this business is we are seeing continued volatility in the business right now, but we believe that the business continues to be a good business long-term. We will probably have to see a couple of quarters before we can really have a good sense at what point in time it is going to turnaround and come back to the levels where it was at 6 to 9 months back, but at this point in time the focus is to ensure that the operations performance is good and we focus in ensuring that the profitability the big fall last what we had in Q3 and we have come back in Q4, we tried to maintain levels around that adjusting for some of the seasonality factors which we would see.

With that I will take you to the slides on guidance which is on Slide 20. And here just to give you a little bit of perspective on our outlook for the year, we see our healthcare business growing significantly. As we mentioned, we have a strong proposition there and it is clearly not affected by the recession or the slowdown which we see in the US. In the telecom business we are seeing a significant momentum from our existing customers and who are looking for new business and lot of them are in procurement right now to look for more outsourcing and more offshoring, I think some of them, they are now looking for how can they get their cost improvements in the telecom sector. We are

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seeing growth in the business and we are also seeing growth in the business in India. In the BFSI segment clearly there is slow movements on deals and I think particularly for the next 2 quarters we do not see a whole lot of deals closing in this segment as the market adjusts and the banks adjusts to their internal issues and then start focusing on more strategic outsourcing decisions. As I mentioned the collections business, we would see for the next couple of quarters we would wait and watch and see what happens.

So in the context of our guidance is that our operating revenues will grow between 33% to 38% in dollar terms, if we exclude MedAssist this growth would be between 17% to 21%. And there is an impact of fall off of grant in Northern Ireland of 3%. The main assumption behind this is the dollar FX rate of 39.5. On the profit side we expect the operating EBIT percentage for the year to be similar to slightly below the FY2008 levels and we do expect some quarter-on-quarter volatility as some of the movements in the business, in the collection and other businesses work itself out. In the next quarter while we do not give guidance on quarter-on-quarter basis but we do want this group to be aware of the fact that for the next quarter we have some of the seasonal factors that will affect us next quarter for example collection seasonality impact will fall off in the next quarter, we also have normal wage increases which take place. We also have a fairly large ramp which is taking place in that quarter so that will have cost and we of course have the grant which we spoke about earlier in the Northern Island is going to fall off so there is going to be some impact of that.

In terms of the overall tax rate, it is expected to go up from 9% in fiscal 08 to about 15% on account of the mix of business and the fact that MedAssist is going to be contributing more to the profit and that profits are taxable. So, that is really I would say the overall outlook for the year. So clearly in the segments of our business we are seeing continued growth momentum without really too much impact of the slowdown in the US but clearly in certain segments of our business we are seeing some slowdown taking place and some of that will affect our performance in the year. With that, I will hand it back to the moderator and open it for questions.

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Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. At this time if you would like to ask a question please press * and then 1. The first question is from the line of Tracy Fu from QVT. Please go ahead.

Tracy Fu: I just wanted to clarify the Rs.196 million charge on the FCCBs, what is that for, were these paid to the banks is that what that is?

Rajesh Subramaniam: No! What typically happens is that you know we have contracted $275 million of FCCB and the exchange rate at which it was contracted was around 39.5, but at the end of the March quarter the exchange rate moved to Rs.40.10 so the differential is …

Tracy Fu: So each quarter you are going to revalue that with the exchange rate then basically?

Rajesh Subramaniam: That is correct.

Ananda Mukerji: And you understand that would fluctuate every quarter depending on what is the closing quarter exchange rate.

Tracy Fu: I see. okay. So as the Rupee okay because the Rupee weakened you take a charge, okay that is right. Okay I understand, thank you.

Moderator: Thank you. The next question is from the line of Ms. Mitali Ghosh from Merrill Lynch. Please go ahead.

Mitali Ghosh: Yeah. Hi, good evening! Just wanted to understand what is the kind of you know dynamics, are there any different business dynamics that you are seeing in the US versus Europe you know in both the banking space as well as the telecom space.

Ananda Mukerji: In the telecom space not really I mean we are seeing our telecom customers both in the US and UK at this point in time are looking with more work to be offshore. So they are in active procurement phase right now so they clearly are going forward and we have not seen any kind of impact on that momentum. In the banking space clearly, we are seeing slowdown in terms of

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companies taking decisions at this point in time, decisions are getting deferred I would say it is more so in the US than in the UK but I think overall the sector is in an introspective frame of mind right now and are not really looking at any strategic decisions at present.

Mitali Ghosh: Are you seeing any project cancellations or any slowdowns in the banking area?

Ananda Mukerji: Yeah we are seeing projects which were, there were a couple of projects which have got delayed, we have had couple of projects which were earlier supposed to start and have now being cancelled and being deferred for into consideration for a later stage. We have had some of the volumes from customers that have come down as their business has come down. So yeah clearly there has been at this point in time the slowdown in their business and their environment and it does translate into some volume changes for us.

Mitali Ghosh: Right and around the wage hike that you mentioned, so just at this point I know you do not really you know guide on a quarterly basis, but should one at least be expecting a flattish sort of Q1 or is there even the risk that revenue would actually decline?

Ananda Mukerji: We do not want to give a quarterly guidance as we generally said, we give our expectation for the year so we do not really give any thing for the quarter.

Mitali Ghosh: Right, okay that is fine. And just on the wage hike what is the kind of wage hike you are looking at this year that you have factored in your margin guidance?

Ananda Mukerji: 10% for India.

Mitali Ghosh: Okay and you have something onsite as well?

Ananda Mukerji: And 3% onsite.

Mitali Ghosh: Just one last final question to Rajesh. You know recently this guideline has come in on derivatives accounting under Indian GAAP the AS-30 I think, is that likely to have any impact or is that that is already what you have adopted?

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Rajesh Subramaniam: Yeah I think the fundamental substance of AS30 Mitali is the fact that you know we do not do any speculative trades, all the hedges and the forwards the form that we take of the hedges is backed by an underline. So, they are essentially cash flow hedges, so given the fact that they are cash flow hedges the auditors have done their test and it is actually something that we have been following ever since we have moved to take a longer view on the exchange rate given the volatility that we saw last year. So as far as the AS30 standards are concerned we are in compliance and there is no mark-to-market impact it goes to our reserve in the balance sheet.

Mitali Ghosh: Okay thanks a lot.

Rajesh Subramaniam: Yeah.

Moderator: Thank you Ms. Ghosh. The next question is from the line of Mr. Ganesh Ram from Spark Capital. Please go ahead

Ganesh Ram: Hi just wanted to get a sense on your diluted capital base at this point in time including your potential ESOPs?

Rajesh Subramaniam: Yeah including the potential ESOPs Ganesh and our FCCB the fully diluted capital which includes ESOPs that has been granted is about 616 million. So the fully diluted capital of the company including the FCCB conversion and ESOPs that have been granted is about 616 million.

Ganesh Ram: Okay and how much more you think you will be diluting, how much you would be issuing these ESOPs going forward?

Rajesh Subramaniam: The total diluted capital including ESOPs which are still in reserve which have not been granted is about 633 million.

Ganesh Ram: Okay fine. Thanks.

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

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Nimish Mistry: Yeah hi, I just wanted to understand what would be the revenues in this quarter for MedAssist.

Ananda Mukerji: We do not give enterprise level revenues, we will be giving you consolidated revenues.

Nimesh Mistry: Okay but some idea about the organic growth how much was what this quarter?

Ananda Mukerji: Yeah this quarter I mean all the numbers are actually from between Q3 and Q4 have not changed, so and both in Q3 there was MedAssist and Q4 there was MedAssist so the number the growth which you see quarter-on-quarter is the organic growth.

Nimesh Mistry: Can you throw some light on what happened in this quarter on MedAssist I mean the growth seems to be slightly moderate?

Ananda Mukerji: No I think the MedAssist the growth of the overall business includes MedAssist so I do not think you can separate out MedAssist's growth in this particular quarter, because MedAssist was there in the previous quarter as well as there in this quarter. So the overall company revenues between Q4 and Q3 is as you said relatively flat part of it is on account of the fact that as I mentioned in earlier question we have had in some of our banking customers volumes are coming down and that has had some impact whereas we have, whereas in other business which has been growing. So really and in collections while the profitability has improved the top-line is not growing in proportion to what was expected.

Nimesh Mistry: Last quarter we saw a dip in your collection business has it done an average you know run rate in this particular quarter or it is lower than the average quarter last year?

Ananda Mukerji: Not sure I understand what you mean by average run rate. Clearly the collections business as I mentioned in the presentation has performed operationally much better than the previous quarter and we had forecast that and we had given the number in the earnings call last quarter that some of that is due to the fact that Q4 is a quarter where the US tax payors get back tax

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refunds and therefore more money comes in. Some of it is due to actual operational improvement.

Nimesh Mistry: Alright, can you also give a breakup of how much was the exchange rate impact on your revenues?

Farid Kazani: For the quarter?

Nimesh Mistry: Yeah.

Farid Kazani: For the quarter it is not very significant because the exchange rate was moved from say 39.5 to around 40.1 it will be not more than 0.1% actually.

Nimesh Mistry: Okay and could you throw some light on how much employee addition you are looking at in FY 09?

Ananda Mukerji: We do not give forecast of employee additions.

Nimesh Mistry: Alright and I mean already you have mentioned on the collection business, but can you throw some light as to what I am saying is your organic growth is lower and what you are guiding for FY2009 there as well you are guiding at about 17% to 21% on organic terms, this is in context of the delays for the first two quarters and you see that there is going to be backended growth and also I would like to know on the MedAssist part how it is going to grow in the next year?

Ananda Mukerji: Yeah I think clearly as you mentioned the impact of the next two quarters, uncertain environment particularly in the BFSI space in collection does moderate our growth to that extent. So, yes you are right there is going to be some of the growth is backended. In terms of MedAssist the expectation is that the business will grow between 12% to 15% and it is a little bit higher than what we were anticipating at the time when we did the acquisition. So, that growth of momentum is really unaffected by the environment.

Nimish Mistry: Alright and the last question, right now what would be your total seat capacity?

Ananda Mukerji: Close to 14,900.

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Nimish Mistry: And on the seat-fill factor you are looking at 73% this quarter, can you throw some light on this going forward?

Ananda Mukerji: Yeah I mean seat-fill factor you know as we have mentioned in earlier call this is a part of our strategy to build out a global footprint has resulted in us having capacity in many places that we believe that it is something which is a business need and will help us in the long-term. We are targeting to bring that, to bring the increase seat-fill factor over time and the intention is to increase it from where it is today.

Nimish Mistry: Okay thanks a lot.

Ananda Mukerji: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Sanket Dhake from Span Capital. Please go ahead.

Sanket Dhake: My all questions are answered thank you.

Moderator: Thank you Mr. Dhake. The next question is from the line of Mr. Rohan Gala from Iden Investment Advisor. Please go ahead.

Rohan Gala: Good evening sir.

Ananda Mukerji: Yeah, Good evening.

Rohan Gala: Can you throw some light on your strategic alliance with Metavante that is more into the BFSI segment so can you just throw some light on how is the thing going on with them?

Ananda Mukerji: Yeah as I mentioned the banking market in the US for BPO services currently we are seeing slow movement there, we are seeing a lot of decisions are slower, the decisions are getting deferred, I think for the next couple of quarters we will not see a whole lot of deals closing and that is factored into our forecast.

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Rohan Gala: And how about you know clients of Metavante, you know doing anything for the clients of Metavante, to capture that client base?

Ananda Mukerji: Yeah I mean our partnership with Metavante is to really go, to offer a combine proposition involving technology and processing to get to the Metavante customers. So, we have been talking to the market and there is active discussion going on, but clearly at this point in time we are seeing banks relatively disinclined to take strategic outsourcing decisions and we anticipate that is going to continue for the next few quarters.

Rohan Gala: So after the strategic alliance with Metavante how many clients how many clients have you got on them as of now?

Ananda Mukerji: See we do not; we have not really been disclosing channel wise or geography wise clients, so I would not be able to answer that.

Rohan Gala: Okay thank you sir that is all.

Moderator: Thank you Mr. Gala. The next question is from the line of Mr. Sujeet Joshi from Irevna Research. Please go ahead.

Sujeet Joshi: Hello.

Ananda Mukerji: Hello.

Sujeet Joshi: Yeah could you give us some sense on you talked about couple of projects getting cancelled and delayed and volumes of transactions also having got reduced. Could you give us a specific idea on where these delays are you know coming in this BFSI particularly?

Ananda Mukerji: Okay the deals where we are seeing delays and cancellations are in the BFSI space where the customers with whom we have been discussing about these are now looking at they say now want to deferred those decisions and for example the Barclay Card deal which we closed in March it was originally supposed start operations in January so the whole decision and process got delayed by 2 to 3 months. So we are seeing a lot more of customers taking

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longer over decisions and delaying decisions as they deal with their internal issues in the banking space.

Sujeet Joshi: Sir in particularly in BFSI do you see softness in any particular sub-segment that is what my intention was?

Ananda Mukerji: Okay I misunderstood your question. In the BFSI segment really our presence it is in retail banking and credit cards is where our strongest presence is and both those segments we are seeing this impact.

Sujeet Joshi: Okay and just a couple of bookkeeping questions, number of clients that you have by the end of FY 08? Could you just specify that?

Rajesh Subramaniam: Yeah I think the number of clients details with the MedAssist acquisition as I detailed last time it becomes a number which does not make any sense in communicating to the analyst while we know how we manage our business from the client profitability. So I think it is a number which would not make sense because there are many hundred clients that we have got from the MedAssist acquisition.

Sujeet Joshi: Okay sir thanks a lot.

Moderator: At this time there are no further questions in the questions queue I would now like to hand the proceedings over to Mr. Ananda Mukerji for closing comments.

Ananda Mukerji: Let me thank you all of you for joining the call as I mentioned we have had a good performance for the year in a fairly challenging business environment. We do see while certain segments of our business will have challenges, overall I think the momentum in most of the segments of the business whether it is the healthcare side or the telecoms side particularly in India and in other geographies, we see the continued interest from our customers to look at outsourcing and offshoring and we expect that this momentum would continue. As I mentioned we will see for the next 2 quarters particularly on the BFSI side we will really have to wait and watch to see how the market evolves before we really have a absolute clarity as to how we expect to see the market and that is factored into our guidance for the next year. Thank you very much for joining the call and I will hand you over to Krishnan to conclude.

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Krishnan Akhileswaran: Thank you again everyone for participating in this call. If 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 of the Firstsource Management, thank you Mr. Michael Shae. Ladies and gentlemen on behalf of Firstsource that concludes this evening's conference call. Thank you for choosing the Chorus Call Conferencing facility and you may now disconnect your lines. Thank you.

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