Q4 FY2009 Earnings Call Transcript – April 29, 2009

CORPORATE PARTICIPANTS:

- Mr. Ananda Mukerji – Managing Director and Chief Executive Officer
- Mr. Carl Saldanha – Global CFO
- Mr. Farid Kazani – CFO India and Global Financial Controller
- 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 Q4 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. Now, I would like to handover to Mr. Krishnan Akhileswaran, Head of Investor Relations. Thank you and over to you sir.

Mr. Krishnan Akhileswaran: Thank you Sandhya. Good afternoon to participants from Asia and good morning to participants from Europe. Welcome everyone and thank you for joining us on our Earnings Call for the Fourth Quarter and Full Year Ended March 31st, 2009. Please note that the results, fact sheet, 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: Good morning.

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

Mr. Carl Saldanha: Good morning.

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

Mr. Farid Kazani: Good afternoon.

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 the 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 risks the company faces. The full statement and explanation of these risks is available in our prospectus filed with SEBI which can be found on www.sebi.gov.in. With that said, I would now turn the call over to Mr. Ananda Mukerji, our Managing Director and CEO.

Mr. Ananda Mukerji: Good afternoon everyone and welcome to this earnings call. Carl and I will take you through a short presentation on the company's performance, basically FY09 highlights, financial performance, and both for the quarter and for the year overall, and then talk a little about business outlook.

If I look at our performance for the year, we have had a revenue growth of 34.7% year on year in rupee terms, and about 25% in constant currency terms. This of course included the full year's impact of MedAssist as opposed to 6 months impact in last year. So, if I normalize for that, the organic growth in rupee terms is 16.1% and the constant currency growth rate was 10.6%. We had revised our topline guidance middle of last year to 32% rupee terms, so we have been able to come in on track of what we had expected at that point in time. Operating EBIT is at 1375 million, 7.9% margin compared to the 1479 million, 11.4% margin in FY08. Margins in this year have been down for a couple of reasons. First of all the impact of the US recession on a couple of our business segments particularly the credit card collections business in the US as also the impact it has had on the healthcare segment in particularly with the ability of some of the state and federal agencies to reimburse the hospitals for programs like Medicare and Medicaid, so that has been the one impact on the profitability. The other impact has been that we have had significant ramps in our Asia business unit as also in the North America which has added cost during the year. So, these are the two main factors which have caused our profitability to be lower. If you look at our margins as Carl will take you through across the year, we were about somewhere around 10% operating margins for the first two quarters. We dropped in Q3 because of some of the factors that I talked about and it came down significantly, and we had said at the last earnings call that we expected it to bounce back in this quarter, and that is what it has. Overall, in the year, it has been lower than where we expect it to be in a normal situation. We have continued our expansion in delivery footprint, 43 centers as on March 2009 compared to 36 at the beginning of last year, added 8 delivery centers in the year, and shutdown one center in North America. Seat capacity is just under 19,000 at the end of the year and added about 4,000 seats during the year. The 21,570 employees as of March 31st, 2009. We have added 4,200 employees during the year. 3,700 of them have been in India, and just 500 odd outside India. Our relationship with our customers continues to grow even in a fairly difficult market environment we are happy that, you know, whereas the overall volumes are under pressure, 7 of our top 10 customers have grown revenue with us during the year. We have added a number of marquee customers in the course of this year, and we expect the benefits of that to come in the coming years. This includes a large Australian telecom and media company, a very large UK telecom company, and one of the top 5 Indian telecom service providers. These are the new wins in healthcare on the provider side, and we have won a number of new programs on the BFSI side in the collection side, which as I had mentioned that we were selectively looking at adding new customers when they are really large customers with whom we will have lot of potential in the future, and we have had a couple of those wins as well. One of the major initiatives we did during the year was to reorganize ourselves into four independent business units, if you remember we have always had the focus on these 3 industries, in BFSI, telecom and media, and healthcare, but the way we have organized was we had more of a geography organization as far as sales and marketing is concerned, and more unified delivery infrastructure at the back. This year, we decided to reorganize ourselves and create clear business units with responsibility from right from prospecting to customer acquisitions, relationship management right down to delivery, and we believe that this is going to further strengthen our domain expertise as also facilitate the development of specific business strategies which mirror the industry because each of our industries has very different dynamics and therefore requires a very different approach to the way we deal with it.

Some of the other things which happened during the year, I think most of you are probably aware of this; we bought back just under 50 million dollars of convertible bonds. So, today, the outstanding has come down from 275 million dollars to 225 million dollars. As I had mentioned in the past, our convertible is due in December 2012, so we have over three and half years to go. We really do not see really a lot of pressure in terms of the convertible bond maturing. However, we saw very attractive prices in the market, and we opportunistically bought it back, and that has been done at a fairly attractive discount, and we have financed it by a fresh ECB, which is a 7-year ECB so the repayment obligation is also spread over a much longer period. We continue to do extremely well in terms of our operations excellence and we continue to get international awards on the areas of 6-sigma process excellence, workforce management, recruitment, and really all the facets of our operation delivery have got significant recognition from international agencies. With that, I would hand it over to Carl to take you through the financial numbers for Q4 and Full Year.

Mr. Carl Saldanha: Thank you Ananda. I will first take you through the first part of the quarterly results and then later on I will run through the annual results. In the fourth quarter, we have increased our revenue from 3.7 billion for the fourth quarter of last year to 4.7 billion, an increase of 25.7%. Quarter on quarter, also we have increased by 6.3% from 4.4 billion to 4.7 billion. In terms of operating EBITDA, we have had a slight decline in EBITDA from 622 million last year to 606 million, a slight decline of 2.7%. However, quarter on quarter, we have gone up by 33%, 455 million to 606 million. In terms of operating EBIT, our margins in last Q4 were 10.5%. This year, this last quarter, it has come down to 7.6%. However, again, quarter to quarter, we have gone up in margins from 4.5% to 7.6%. Net profit right at the bottom has gone up from 210 million last year Q4 to 409 million this year Q4, quarter on quarter has gone up from 116 million to 409 million. There were a number of extraordinary items this year in this last quarter, and I will just take your through them in a minute. In terms of growth of revenue, the 6.3% quarter on quarter growth in revenue represents a 4.6% growth in US dollar terms. The year on year growth as I had mentioned earlier was

25.7% in rupee terms and 14.4% in constant dollar terms. The operating EBIT, the margin was 360 million, 7.6% in the last quarter as compared to 201 million the previous quarter, an increase of 159 million. This was largely as mentioned by Ananda is because of the ramp up of the domestic businesses in the third quarter of this last year, and also because of the seasonality of collections, you know, there is a lot of any tax refunds coming up in this quarter and therefore our collections business improved. Talking about the extraordinary items, as you know, we bought back roughly 50 million dollars, exactly 49.7 million in terms of FCCB, and we have recorded a gain of 635 million. This capital gains that we get from the face value amount minus the price that we paid for the amount, and after adjusting for the foreign exchange impact, and any fee that we may have paid for that. Secondly, we have taken a provision of 138 million towards rationalization of various delivery centers, overseas and in India, and some other restructuring that we have to do, and thirdly we have taken a mark-to-market loss of 236 million on account of foreign exchange covers that we did. Earlier last year, we estimated our foreign exchange revenue for the coming year, year 2010, it turned to be in excess of what we now expect it to be, and as such, we have therefore provided for the difference and that will be marked as 236 million. Nevertheless, we still have hedges in place, a total of 82 million. I should mention that this hedge is related to our offshore business, i.e., the business that we deliver out of India, where the revenue actually comes into India. The split is divided into 70% in Sterling and 30% in US Dollars. In terms of US Dollar, we have covered 100% of our receivables in FY2010, and 100% of the expected receivables in FY2011, but in terms of

GBP we covered only 50% so far. We may cover the balance as time goes on, and the price that we get.

Employees as of March 31st is 21,570, of which 16,859 are based in India, and 4,711 are based outside India. We actually have seen a reduction in this last fourth quarters of 950 employees. As I mentioned, we had over-hired the third quarter because of the ramp-up; due to the 2,944 employees that to be added on in the third quarter. In terms of attrition, the attrition levels are fairly normal for this business, and it depends on the location and the kind of businesses. In the offshore business, the level is about 35.8% same as in the previous quarter. In the onshore businesses both in the US and UK, it is 38.4% versus 38.8% in comparison to the previous quarter. As for the domestic business, it was 74.1% as compared to 68.8% in this quarter. We have now got a capacity of 18,900 seats. We have added 2 delivery centers in this quarter, one in Coimbatore and one in Bangalore, and in fact we have shut down one in Reno, North America. The seat fill factor is currently at 70% compared to 74% at the end of September. The average seat fill factor for the whole quarter is 73%. In terms of the spread of our business, in terms of the top 5 clients, last year Q4 we were at 31.2%, last year this time, and at the fourth quarter of this year, it is up to 31.7%. In terms of geography, we have gone up in the US from 61.6% last year Q4 to 63.6% in this Q4. The India business has gone up y-o-y from 9.5% to 11.9%. The UK business has come down y-o-y from 28.8% to 24%. In terms of the verticals, the healthcare division has grown a little bit y-o-y from 39.5 to 39.8. The telecom business has grown y-o-y from 29.1% to 33.7%, and the BFSI correspondingly has come down y-o-y from 28.5% to 24.3% in this last quarter.

I will just take you through the number for year as a whole. The revenue from operations for the fourth quarter of last year was 12.9 billion, and has grown to 17.5 billion in the immediate quarter, a growth as we mentioned earlier of 35%. That is for the whole year. We have given you the quarterly breakdown over there, and you can see that the quarterly numbers have increased successively each quarter from 4.07 billion to 4.7 billion right through the quarter. In terms of EBITDA, last year we were at 2.3 billion and basically remained at 2.3 billion in this year; however, the percentage has gone down from 18% to 13.2%. Similarly the operating EBIT numbers have gone down from 11.4% to 7.9% for number of reasons as Ananda has explained earlier and we will take you through later on in the call. So, of that, we showed you a number of adjustments, most of the adjustments were done in this last quarter which I just explained. For those of the adjustments done in the first quarter of 802 million because of the effect of the foreign exchange on the FCCB borrowing which we have retained. Net-net, our profit has gone down from 1.3 billion to 307 million.

Now to take you through the business outlook, I will hand you back to Ananda.

Mr. Ananda Mukerji: What I will do is just talk a little bit about what the individual business units are seeing in terms of industry trends and outlook and as I mentioned we have reorganized ourselves into these four business units and going forward we would be giving you more information in terms of the financials of each of these business units, but at this point we are going to talk about what the trends and outlooks are looking like, so healthcare, we do this work in the US, work both on the payers and the provider side. Q4 numbers are 41% revenues are being contributed by this. We deliver this both from the US and from India. The major trend in this industry really is the US healthcare reform, and one of the concerns, one of the major plans of the President Obama's campaign was healthcare reform, and one of the concerns was that in the midst of all the pressures the US economy is facing whether this is going to take backseat, but I think the administration has very clearly announced that they are going to go forward with reforms, and I think while there is still some debate that what is the exact form the reform will take place, it is clear that there is going to be change in the way that industry is structured and so on. We are seeing that the state governments continue to be under budgetary pressures because their tax receipts are down from previous years. As a result of which their ability to reimburse hospitals in time has come under some pressure. The payment cycles have increased. In the last quarter, we had mentioned that it had a significant impact on our revenues and profits in the last quarter. We have seen some of that come back in this quarter. The unemployment rate in the US being at historical high has resulted in their higher underinsured and uninsured population, and that affects business because on the payer side the volume of medical insurance claims one gets is the function of how many, what is the population of the insured out there, and so to that extent, that is affected the business in the short term. If I talk about the business outlook, I think the eligibility services and the receivables management which we do, is going to be impacted to some extent by the state budgetary pressures. Healthcare collections though not as vulnerable as credit card collections, may get impacted to some extent. We are seeing low volumes in the healthcare payer segment due to the reasons which I mentioned of underinsurance and uninsured population. We expect that the stimulus package which the administration has put in place is going to provide some of the mitigants. As I mentioned we have seen some of the payment cycle issues which were there in the previous quarter, some of that has mitigated in this quarter. We have to wait and watch to see that is maintained. At this point, we have seen some improvement in that, but overall in healthcare we should see huge opportunities in the medium term because I think we as a company are in a sense at the right place, at the right time, in the right industry, we have presence in this industry, which goes back many, many years. We have deep relationships with customers both in the payer side and provider side and as also a very good understanding of the dynamics of this industry, so we do think there is going to be a lot of opportunities for companies like us as the industry tries to grapple with its cost structure pressures. We have made significant investments in sales and marketing over the last year both in provider and payer side, and we expect overall in spite of the challenges, short term challenges we are talking about, we expect moderately higher growth in fiscal 10 as compared to fiscal 09 from this segment.

If I turn to telecoms, we service two geographies out there in this industry; the US and the UK, key segments here at DTH, wireless, mobility, broadband, and fixed line. This constitutes 23% of income from services in Q4. I just want to clarify, here we are talking right now about the business units and telecoms service both by this telecom business unit as also the Asia business units, when I am talking right now about 23% of income coming from this, this 23% of the work which we do in the US and UK market. We deliver this out of four countries, India, UK, Argentina, and the Philippines. Industry trends if allocated in the four segments of industry we spoke about, on the mobility wireless side, clearly topline growth in the developed markets is tapering off and ARPU is also tapering off, so greater focus is there on consolidation in cost now. As a result of which the impact in the business outlook is that there is a lot more interest in outsourcing and right-shoring amongst our customers, and we are seeing consolidation of service providers and that is something which we are getting the benefit of. If I look at our last year, fiscal 09, business from the existing customers was largely flat, as volumes were not coming in because the growth was starting to taper off, but now over the course of the year, I think they are now focusing more on how can they improve their efficiency to outsourcing, off-shoring and right-shoring has now become an important element in their strategy, and most of our customers, large customers have looked at consolidating vendors, and we expect to see the benefit of that in the coming year.

On the broadband side, the new customer additions are starting to slow down, so in a sense the early move from telecom company to really try to grab territories now is now probably over, and the ISPs are starting focus on margin expansion, and so the impact for us is that market growth has come down, but we expect to see growth coming through margin expansion initiatives of our customers. On the fixed wire line side, we are seeing enterprise revenues are showing some decline in line with the current economic environment. In this segment, we work primarily in the USA for enterprise customers, so we expect this to probably remain steady during the year. DTH pay TV subscription business has largely been unaffected by fall in advertising revenues, and actually is gaining importance as customers cut back on going out and stay at home, so there is a lot of more of bundled packages and triple play coming onto this with our customers in this segment trying to enter some of the other segments of the industry, and we are seeing a triple play and quad plays becoming more and more increasingly as a norm amongst our customers. So, DTH pay TV business has been relatively immune to the recessionary trends and the volumes also are showing positive trend, so overall the telecom and media sector we expect to see positive growth in FY '10, and this is a sector which has led our growth in the last year as well, and we expect it also to have fairly strong positive growth in this year.

In terms of the BFSI segment, we work in two geographies again, US and UK, work in four segments, credit cards, retail banking, mortgages, and general insurance. 24% of our revenues in Q4 came from this segment, deliver from three geographies, India, US, and the Philippines. If I look at the industry trend in the credit card side, there is clearly a pressure on unemployment and as mentioned US salaries, so business volumes and collections continue to go up but liquidation rates continue to remain soft, so collection margins are likely to remain depressed. It has been depressed for most of last year, and probably I would say last 15 to 18 months, and this is expected to continue to remain a little depressed. Margins in other credit card businesses such as customer service will improve due to right-shoring. Currently, we do some work here in the US. We are now starting to do work in offshore locations, particularly in Manila. On retail banking, I think there has been a rally for restructuring the banking market place, lesser than number of large banks, so lesser target opportunities but larger opportunities overall. On the mortgage side, we work in the UK market, gross mortgage has fallen two-thirds over the last 6 quarters in our key market as fewer lenders are taking larger part of the market share. Origination work will continue to be low here, but overall we expect volume of work to be maintained. On the general insurance side, we are seeing aggregators, price comparison sites are increasingly becoming dominant, and there is slowdown in new car sales, to that effect the amount of general insurance growth which takes place here. More opportunities for us as the insurers try to reduce the operating costs remain competitive but slowdown in new business volumes. I think if I look at overall in this sector, there is a pipeline but it is facing slowdown, it is still not continuing to move as quickly as it has historically and this is being the continuing trend over the last year, as banks and financial institutions take longer to take decisions, and still really have not got over their current mode of dealing with their immediate issues and waiting and watching. While there have been some positive movements in terms of results announced by banks recently, but we are still waiting and watching to see what impact takes place down on the ground in terms of decisions out here. So, overall we are still cautious about this sector, and we expect to see flat to probably slightly negative growth in fiscal 10.

So, if you look at the Asia business unit, the key segments here we work in is BFSI and telecom, and at this point in time, the geography we are working is India, 12% comes from this business unit. India is showing positive growth despite the global growth rates and telecom and BFSI sectors have maintained their growth trajectories. BPO is an emerging industry here and there is a general gradual shift from our customer side from really cost focused to value-based services from tier-1 service providers. Lot of the industry historically whether BFSI or telecoms used to work in-house or work with the unorganized sector. Increasingly, they are shifting from really trying to get cost advantage to unorganized sector to really value-based services from the tier-1 service provider, and that is the reason why we have entered this market segment. Clearly, there is a focus on innovative outcome based pricing models as opposed to input based pricing, and here I would say that in this sector probably we are seeing this kind of trend far more than we are seeing in the international business where innovative pricing models are more than it is in the international market. There are large segment of the market which are yet to start outsourcing, so there is a large and nascent market opportunity. Our clients are also increasingly reaching from the metros to the tier-1 and tier-2 cities and beyond, so that calls for us to be also able to respond. So, in terms of outlook, we expect to mine existing customers in telecom and media sector and ride their growth. We see opportunities in banks, insurance, and the government where we expect they will open up, and really the focus is on product and service offerings to manage the kind of volumes which our customers now need, and enhance the ability of them to reach the market at a lower cost. We believe this segment will continue to show strong positive growth in the year. It has been in an investment mode for in the last year and I think will continue to be an investment area for us, but we see big opportunities out of this because if I look at it, overall, a large part of the GDP of the world is going to come from the developing world, and our ability to grow in the long-term will define on our ability to get access to this market as well, and we believe our business model which we are fine-tuning right now in Asia and in India will help us to be able to access these markets in the future. Overall, to summarize in terms of business outlook, I think we expect overall positive revenue growth. I think there is still uncertainty in the business environment, so while we are confident that there will be positive growth, we don't believe we really would like to quantify at this point in time. On the profitability side, we do expect to improve profitability over our levels which we have achieved in this year, and this would be through better capacity utilization as we mentioned our capacity utilization particularly in the seat front continues to be fairly low at 70% seat-fill factor at the end of the year. This is clearly an opportunity for us to improve there. We had a big focus last year on productivity and cost savings. We had kicked off a number of initiatives in certain parts of the company to help us to do that. We expect to continue doing that. Also, in fiscal 09, we had very, very large ramps in our Asia business unit, and those are expected to stabilize, and therefore margin improvement should come from that. However, going into the first quarter of next year, we will see some impact of the collection seasonality falling off because we have had benefit in Q4, so we should see slightly lower revenues and profitability in the next quarter, but that is a normal seasonal trend we have seen in our business. With that, I will open it up for questions and hand it back to the moderator.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants connected to the India Bridge, who wish to ask questions, please press *1 on your telephone keypad. Participants connected to the International Bridge can press 01 to ask a question. 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, please press *1 and 01 now. First in line, we have Mr. Sujit Joshi from CRISIL. Over to you sir.

Mr. Sujit Joshi: Hi, good afternoon. Thanks for taking the question. First, certainly I would like to know what were your average realized rates in dollar INR for the quarter?

Mr. Farid Kazani: The average realization this quarter was approximately 49 rupees?

Mr. Sujit Joshi: 49?

Mr. Farid Kazani: Yeah.

Mr. Sujit Joshi: Okay. So, that would translate to something like 96 million dollars in revenue for the quarter.

Mr. Ananda Mukerji: That is right.

Mr. Sujit Joshi: Okay, and could you just give us some clarity on the decline in the seat fill factor for this quarter, did you see any ramp downs, anything, some large client pulling out or something of that sort, what is the reason for the drop?

Mr. Ananda Mukerji: Yeah, the seat fill factor is a function of capacity which we have created. We had two new centers which got commissioned during the quarter, so therefore the number of seats which came on stream by the end of this quarter had suddenly gone up and so that is why the decline is. This is a normal trend where new capacity comes on the seats will start to decline and then as those centers get filled up that the seats will come back again, but I would reiterate the comment I made during my presentation that this is an area of focus for us and we do want to get seat fill factor up again to where we would like it to be.

Mr. Sujit Joshi: I mean, there is not anything on the sense of any ramp downs or anything that you are seeing that you probably have had an impact on this?

Mr. Ananda Mukerji: Well, can you repeat the question?

Mr. Sujit Joshi: What I was saying is there has not been any ramp downs as such which would have resulted in a lower seat fill?

Mr. Ananda Mukerji: No, no. There is no ramp down in fact.

Mr. Sujit Joshi: Okay, great, that is it from my side. Thank you.

Mr. Ananda Mukerji: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Kunal Tayal from Bank of America. Over to you sir.

Ms. Mitali: Hi, good afternoon, this is Mitali, firstly just wanted to understand, I missed part of your opening remarks, but did you comment on the pricing environment that you are seeing in the different business units.

Mr. Ananda Mukerji: Yeah, I think from our existing business we have had sporadic cases of customers looking for some price reductions. It is not a widespread trend overall, but we have some customers looking for price reductions, but essentially what they are coming back for is asking is there any way in which we can improve the overall cost of delivery for them, and they are flexible in terms of whether it is done by way of change in the way the delivery is done or change in delivery locations, and are prepared to compensate by higher volume of work and so on, so we have seen some of that, so I think the other part where we have seen some price reduction is on the healthcare provider segment where there have been, you know, the results of the US recession is that the hospitals are facing budgetary pressures right now. They are also facing delays in reimbursement from the government, so there has been some amount of price compression. Having said that, there are other parts of business where we have been able to increase prices, and in some cases due to contractual indexation, to cost price indexes, and the other area is in collections, we are seeing some of our customers now increasing commission rates to compensate for some of the lowering in liquidation rates for the business.

Ms. Mitali: Secondly, in terms of the collection side of the business, I understand it has done well this quarter, you know, what do you see for the next few quarters in terms of the liquidation rates and any stabilization in that?

Mr. Ananda Mukerji: I think we would be cautious about that sector at this point in time. We have seen I think even normalizing for seasonality we have seen some improvement in performance in Q4 compared to earlier quarters, but I think it is too early for us to say that there has been any long-term trend out here, so I think we need to continue to be cautious about this particular sector for the next couple of quarters before we really reach any conclusion.

Ms. Mitali: But you know, in terms of the kind of profitability of the segment, would you say you are sort of, that should remain stable by and large.

Mr. Ananda Mukerji: I think it is already depressed right now, so I think we have the impact of a lower profitability in the collections business for the last certainly over a year, and I don't see that worsening in any way, and hopefully we would see some positive trend.

Ms. Mitali: Right, and just a final question, you know, Metavante recently got sold to Fidelity so how should we think about the impact for you?

Mr. Ananda Mukerji: At a business level, it is too early to say whether it is going to have any impact at all. At this stage, the sector itself is something where there is lot of, whole lot of positive growth impulse is coming, but having said that, our agreement with Metavante itself is something which we have been working with them over the last couple of years and today there are certain segments of the market we now approach directly ourselves and certain portions of the market we approach jointly with Metavante. How that part will play out once the Fidelity Metavante deal goes through, really, it is too early for us to say.

Ms. Mitali:	Right, and as of now, from our shareholding point of view, should one be expecting any change?
Mr. Ananda Mukerji:	We have not heard anything from them on this at all. I expect that they will probably continue the same way as they are.
Ms. Mitali:	Okay, thank you very much.
Moderator:	Thank you very much ma'am. Next in line, we have Mr. Scott Chan from Eton Park, Hong Kong. Over to you sir. Sir, you can go ahead with your questions please.
Mr. Scott Chan:	Hello, can you hear me now?
Mr. Ananda Mukerji:	We can hear you now.
Mr. Scott Chan:	Sir, my question, I will have to repeat it. First question has to do with the tax rate. Could you tell me what it is now, is it still 10% or because it does not seem so from the income statement?
Mr. Farid Kazani:	The effective tax rate is approximately 20% for the year.
Mr. Scott Chang:	Right. My earlier understanding was that you are now under a favorable regime whereas 10%, and then it goes back to 33% I think from next year onwards, is that not the case anymore, and in fact if I look at today's numbers, it seems like just purely on the arithmetic, it seems like it is nearer to 40% if I compare profit before tax and profit after tax.
Mr. Farid Kazani:	I think you need to take into consideration the adjustments that are there, you know, after the EBITDA right up to the PBT stage, but if you look at the actual

profit in terms of which is taxable, the effective tax rate is 20%, and this obviously considers the break that we have in terms of the international business that we do in India, that break obviously is there for another year, and depending upon what happens to the regulation in terms of section 10, the effective tax rate could go up a little.

Mr. Ananda Mukerji: I think the tax rate, the overall, our different businesses have different tax jurisdictions, I think the business which we do in the US and in UK is subject to tax in those jurisdictions, the work which we do in India and in the Philippines for offshore for customers in the US and UK does get tax exempt, so it is different parts of the businesses have a different tax treatment and that is why you are seeing an overall average tax rate.

Mr. Scott Chan: Okay, and then secondly, just following on from the question of the previous person, on Metavante, it sounds like the collaboration that you have, is it something which is formally agreed upon or it is more of a gentleman's agreement because it seems to be in pretty free form in terms of how you guys collaborate in the US or is it a wrong impression?

Mr. Ananda Mukerji: No, there is a formal operating agreement which we have had with them for the last 3 years now, and that agreement really envisages that we will approach the market together with a joint service offering which includes Metavante's technology platforms and Firstsource's operations delivery platform, and combine it into providing a bundled proposition into the market, so we have been working with them over the last few years and unfortunately the market has not been very favorable, particularly over the last couple of years with the financial sector going through a tough phase. What we have done over the last year is that we have agreed with Metavante that there are certain segments of the market and certain kinds of service offerings which do not involve a technology platform solution where we will be able to approach the market directly. The earlier agreement with Metavante was that we would approach the entire market jointly with them and they would front the market. Today, we have the flexibility to approach, particularly the large banks ourselves with a solution which does not necessarily involve a technology solution, but the agreement with them is a formal operating agreement. It is not a gentleman's understanding kind of a situation.

Mr. Scott Chan: I see, okay, and then two sub-questions coming from that. Is there, call it an expiry date to that arrangement that you have, that is question No.1, and question No.2, in terms of what you are able to modify, which you described as now, meaning that for clients or for work that you don't require technology platform, you can approach the client yourself. It sounds to be more favorable to Firstsource. Is there anything that you have to give up in terms of proposal?

Mr. Ananda Mukerji: Yeah, I think the agreement was a 4-year agreement which we entered into in 2006. It expires at the end of March 2010, so this is a fourth year of the agreement. The agreement was really envisaged as a joint partnership agreement where we would work through Metavante, so in the sense we would not approach the market ourselves directly. Metavante would front the market access and Metavante in turn would use us as their exclusive offshore delivery partner. So, I think it was a balanced agreement in terms of commitments from both sides, and as I said we have been in the market now with them for a while and we continue to approach the market with the proposition of trying to create a joint service offering, but I think we both recognize the fact that there are opportunities for pure technology services, there are also opportunities for pure BPO services and what we are now talking about is the ability for us to be able to approach the market with pure BPO services.

Mr. Scott Chan: Fine, okay. The next would be regarding your Fx hedges. Clearly on one of the slides, you have talked about the coverage that you have, could you talk a bit more about at what levels are you hedged, at what levels of the exchange rate are you hedged?

Mr. Farid Kazani: For 2010, we have 100% of the dollar exposure hedged. This is roughly about 45 rupees, and we have 50% of the pound exposure hedged at approximately 75 rupees, and for 2011 we have 100% of the USD exposure hedged which is roughly around 46 rupees.

Mr. Scott Chan: Okay. Alright, and in terms of attrition, on the same page, it seems like it is pretty consistent for offshore and onshore, but then domestic there was a bit of a jump. Is there a particular reason for that?

Mr. Ananda Mukerji: Yeah, the reasons for that is if you look at it our headcount has come down during the quarter by about 950 employees, and this is what typically happens in the large ramp that we have a lot of people who are in training, and as the process stabilizes and training failures drop out, the headcount comes down, and that reflects in higher attrition because that characterizes attrition and as well as headcount coming down, so there is nothing really which has happened in the business as such, but it is just the fact that there has been a rationalization and stabilization of operation which was starting during that period.

Mr. Scott Chan: Right, okay. The next question, we can't see your business outlook on healthcare reforms, right. It should present a huge opportunity in the medium to long term, could you elaborate on that a bit more. Is there a particular direction which you see healthcare reforms going which I think may be is because I am not as familiar with the healthcare reforms and the overall political direction, could you elaborate on how it can lead to positive opportunities as opposed to negative ones.

Mr. Ananda Mukerji: I think the whole focus of the reform is around delivering healthcare at a lower cost, and there are various elements of that including lowering costs of the healthcare delivery itself. The other is lowering the administration costs associated with delivering healthcare, and so the players like us who have the ability to give solutions to customers to lower cost, and particularly with a combined onshore-offshore delivery models such as we have. We believe that there will be opportunities for us to take advantage of whichever form that the reform takes now. It is not entirely clear what form the reform will take and how much of it will then get taken by the state and how much of it would be taken by the private insurance companies, so there is still not a whole lot of clarity coming out of their administration on that, but clearly whichever way one decide to go, there is going to be advantages because the focus is going to be on improving or lowering the cost of administrating healthcare.

Moderator: Thank you very much sir. Mr. Scott, you can come back for the followup questions if you have any. Till then, we will be moving on for the next question.

Mr. Scott Chang: Yeah.

Moderator: Next question comes from Ms. Shraddha Verma from Wizarth Advisors. Over to you ma'am.

Ms. Shraddha Verma: I have some questions regarding the cash and bank balances that we have. We have close to 97 crores of cash balance, so just wanted to know that are we looking out for some kind of acquisitions in future depending on the cash available with us.

Mr. Ananda Mukerji: While we do look at deals all the time, but at this point in time, we are not actively looking at acquisitions, I think it is the time where we would like to conserve capital a little bit as also the fact that the problem with doing acquisitions right now is because valuations are down so much. It is very hard to find good assets because good assets are not available at these valuations, so that is why we are unlikely to be doing any large acquisitions at this point.

Ms. Shraddha Verma: Okay, fine, thank you so much.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Dipesh Mehta from Khandwala Securities. Over to you sir.

Mr. Dipesh Mehta: Sir, I just want a couple of data points, you said we have raised ECBs, so just tell me the quantum of ECB and the rate at which we raised ECB?

Mr. Carl Saldanha: We have financed the buyback of the FCCB using the ECBs. The rate of which is slightly under 10%, part of the ECBs have been drawn in Sterling and some of it is drawn in Dollars.

Mr. Dipesh Mehta: What would be the effective cost of FCCB which we have repaid through ECB?

Mr. Ananda Mukerji: What is your question, what is the effective….?

Mr. Dipesh Mehta: Yield to maturity, suppose if FCCB is not able or get converted then we have to repay it at x percentage.

Mr. Ananda Mukerji: The FCCB matures in December 2012.

Mr. Dipesh Mehta: So, that time face value would be higher than what we have actually raised, so what would be the effective interest cost on that?

Mr. Ananda Mukerji: The FCCB, the effective yield is 6.75%.

Mr. Dipesh Mehta: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Sreevatsan from Spark Capital. Over to you sir.

Mr. Sreevatsan: Hi, just to have a couple of questions on the balance sheet mainly, just wanted to get a sense that 1,200 crores of unsecured loans, is it only FCCB at current rate or is it more to it?

Mr. Ananda Mukerji: Say that again.

Mr. Sreevatsan: 1200 crores of unsecured loans we see in the balance sheet, is it only the FCCB has marked at current prices.

Mr. Ananda Mukerji: Yeah, that is right, it is FCCB, that is all FCCB

Mr. Sreevatsan: Okay, then ECB is part of the secured loans.

Mr. Ananda Mukerji: That is right.

Mr. Sreevatsan: Okay, the second question is relating to the forex loss we had for the whole year, it is about 35 crores because the other income is negative 33 crores, how much of it would be cash loss and are there any mark-to-market losses that has been made into the P&L?

Mr. Carl Saldanha: There is no cash impact right now. What has happened is that you know we have booked forwards for next year, and because we believe that the amount of forwards is in excess of what we expect to get, we have taken a provision against it. However, cash effect would be seen as and when there will be forward contracts actually mature, so as of now since it is recounting entry but going forward there is going to be cash.

Mr. Sreevatsan: Of the total hit we have taken, what would be the amount and how much of it would be cash and how much would be sitting in the balance sheet at this point of time?

Mr. Carl Saldanha: They are all part of the balance sheet.

Mr. Sreevatsan: This quarter of about 20 odd crores, everything is in balance sheet?

Mr. Ananda Mukerji: That is right.

Mr. Sreevatsan: Just wanted to get the split of currency we billed our clients, how much would be Dollar, Pound, and Rupee.

Mr. Carl Saldanha: In terms of our offshore revenues, which we deliver in India, 70% is in Sterling and 30% is in Dollars.

Mr. Sreevatsan: 30% is in Dollars and 70% in Sterling?

Mr. Carl Saldanha: Yes.

Mr. Sreevatsan: Just wanted to kind of disclose the rates at which we are hedged over 82 million.

Mr. Carl Saldanha: Sorry, I did not understand that.

Mr. Sreevatsan: Which we have hedged our 82 million dollars, it has been hedged for FY '10 and 11, what would be the average realizable rate.

Mr. Farid Kazani: That is the question just asked some time back but for your benefit I will just repeat it. For 2010, we have 100% dollar exposures booked and that is at an average of 45. Pound exposure is 50% booked, that is an average of around 75 rupees, and for 2011, 100% USD exposure is booked which is an average of 46 rupees.

Mr. Sreevatsan: Okay, thanks a lot.

Moderator: Thank you very much sir. I request the participants connected to the India Bridge to press *1 to ask the questions. Participants connected to International Bridge can press 01 to ask the question. Next in line, we have Ms. Nikita Khilani from S. K. Sonthalia. Over to you ma'am.

Ms. Nikita Khilani: Yeah, sir, I wanted to find out the ECB loan, that is at what rate, I mean as in the Rupee-Dollar rate and the Rupee-Sterling rate?

Mr. Carl Saldanha: The rate is slightly below 10%.

Ms. Nikita Khilani: No, no, I mean the exchange rate, what forex rate it was booked at.

Mr. Farid Kazani: Your question at what exchange rate?

Ms. Nikita Khilani: Yeah, I mean, at what rate was the money brought in.

Mr. Carl Saldanha: At 50.

Ms. Nikita Khilani: At 50 Rupees, and for Sterling?

Mr. Ananda Mukerji: Just to clarify, it is an ECB which was used to repay a FCCB, so there was no question of converting it because I mean it was a Pound or a Dollar borrowing which is used to retire a Pound or Dollar liability.

Ms. Nikita Khilani: So, there will be no MTM losses on this when you repay?

Mr. Ananda Mukerji: No, there was an exchange loss, but really when we bought it back, the liability which has been retired when it comes into our P&L and balance sheet, then it gets treated in Rupee at the current rate.

Ms. Nikita Khilani: Okay, and sir, what amount is this total ECB borrowed.

Mr. Ananda Mukerji: I think as I said we have bought back about 50 million Dollars of our FCCB with the appropriate amount of ECB depending on the discount.

Ms. Nikita Khilani: Hello?

Mr. Ananda Mukerji: We have bought it back at a discount as we mentioned and it is a fairly attractive discount, but we have not disclosed the exact discount at which we bought it.

Ms. Nikita Khilani: Okay, sir, what is the total debt on the balance sheet?

Mr. Farid L. Kazani: Roughly around 274 million, which includes the FCCB of roughly 230 million and the balance the other working capital and balance loans.

Ms. Nikita Khilani: Thank you sir.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Abhishek from Eight Capital. Over to you sir.

Mr. Abhishek: Hi, this is slightly related, I just wanted to get a breakup of the loan funds between secured loans and unsecured, I mean I have the absolute numbers, but can you take it up between working capital ECB and FCCB because FCCB is slightly not tallying for me.

Mr. Farid L. Kazani: Okay, we will send that details to you separately if that is okay with you.

Mr. Abhishek: Okay, just on secured loans, could you give me a breakup between ECB and working capital?

Mr. Farid L. Kazani: Sorry, come again.

Mr. Abhishek: Just on secured loans, could I get a breakup between ECB and working capital?

Mr. Farid L. Kazani: Can we come back to you with the details?

Mr. Abhishek: Not a problem. Okay, just one more related question. Has the working capital requirement gone up in the last quarter?

Mr. Farid L. Kazani: Working capital requirement has not gone up compared to the last quarter, it has been at the same level and in fact working capital in terms of total amount we are seeing, debtors actually coming down from 58 days to 57 days.

Mr. Abhishek: Alright, fine. So, I will wait for the breakups later then. Thank you, and that is it from me.

Moderator: Thank you very much sir. Next, we have followup question coming from Mr. Scott Chan from Eton Park, Hong Kong. Over to you sir.

Mr. Scott Chan: Can you tell us a bit about the covenants that you have on your existing loan, whether it is secured or the ECBs that you take on?

Mr. Ananda Mukerji: I am sorry, are you asking whether it is secured or not?

Mr. Scott Chan: The various loans that you have on your balance sheet, various loans, you have your secured loans, you have your ECBs which we took on to buy out the CBs, could you tell us a bit about the kind of financial covenants that these loans have with them?

Mr. Farid Kazani: These would be normal covenants in terms of debt equity and debt EBITDA ratios, and it is specific for each of those loans that we have.

Mr. Scott Chan: Right, can you give us rough sense of the kind of the numbers and ranges?

Mr. Ananda Mukerji: Can we come back to you on the details?

Mr. Scott Chan: Sure, you can.

Mr. Farid Kazani: Typically, we are in compliance with each of those covenants, so there is no issue in terms of the covenants that we have.

Mr. Scott Chan: No, I am sure you are, I just wonder how or why they are.

Mr. Ananda Mukerji: I mean, the biggest borrowing, as to the biggest liability, the FCCB which really does not have financial covenants and the ECBs have normal financial covenants which we have negotiated with the banks and they have been recently negotiated ECBs, so the covenants levels which gives us adequate flexibility in terms of our operations.

Mr. Scott Chan: Fine, okay, and then lastly, can you talk a bit more about the ABU, you know, exactly what kind of services provided there, so that we can, I can get a better sense of why you see a strong positive growth going forward.

Mr. Ananda Mukerji: Asia Business Unit, we work primarily in two businesses, two industries, one is telecoms and the other insurance and banking. The kind of work we do actually is pretty broad. It ranges from customer service, back office operations related to telecoms, provisioning, value-added services, receivables management, fraud, collections on the telecom side. On the insurance side, we do work ranging from claims administration, customer service, customer acquisition, so fairly wide range of work both in industries and similar areas in banking. Why we see growth opportunities is that both those industries are growing rapidly in India as also they are fairly underpenetrated in terms of BPO services. A lot of banks and institution in India still operate large in-house operations and what are quite often monolithic operations which are fairly inefficient, and they don't have strong customer service capabilities as well. So, these are industries where we have a lot of experience in working with international customers. We believe our ability to bring that into this market is very, very good. We have done that in the telecoms area. We expect to be able to do that in the banking, financial service, and insurance area as well, and there are other sectors of the economy which are also opening up and lot of companies are looking for greater efficiency, greater value from in terms of delivering their operations. The other reason, I think India's market itself is a very, very large attractive market. We do see this as an ability to really go into other markets beyond India once we have really fine-tuned our business model in India, and our business is really whether it is a large volume of transactions, whether it is paper, email, fax, calls, so wherever there are transactions intensity, that is where BPO services have opportunity then. So, we see opportunities beyond the developed world, which we are already in the US and UK, we see opportunities coming up in markets like India, in other developing markets in the future, but at this point, the focus is really India, and in the future we can go into other markets as well.

Mr. Scott Chang: So, okay, now I understand, it is not necessarily a different sector or rather is a different geography, but you serve two existing verticals already.

Mr. Ananda Mukerji: That is right, and the reason why we have kept it as a separate business unit is because, you know, the dynamics of business here in this business unit as also the delivery model is very different from the delivery model and the dynamics in the international business, so it requires a different focus, a different kind of approach to customers, are also in a different stage of evolution in their own lifecycle so they are lot less stable in terms of their business, so they are all in large growth mode, so the way we want to approach this market is different, that is why we treat it as a different business unit.

Moderator: Thank you very much sir. We will move on for the next question. Next question comes from Ms. Tham from CQS Manhattan. Over to you ma'am.

Mr. Ananda Mukerji: Hello?

Moderator: Ms. Tham, you can go ahead with your questions.

Moderator: As there is no response, we will move on for the next question. Next question comes from Mr. Rishindra Goswami from Locus Investment Group. Over to you sir.

Mr. Rishindra Goswami: Hi, just had two quick questions. Could you just give us rough guidance on what capex will be and what depreciation and amortization would be for this fiscal year?

Mr. Farid Kazani: For FY10, we would expect capex to be roughly around 15 million dollars, and depreciation should be anywhere between 5-1/2 to 6% on the revenue.

Mr. Rishindra Goswami: Great, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nirav Dalal from Capital Market. Over to you sir.

Mr. Nirav Dalal: Good afternoon sir. Sir, I wanted the split of the other income for the full year. I just wanted to know why it is negative.

Mr. Farid Kazani: Yeah, that was on account of the MTM foreign exchange loss of forwards, roughly around 23.6 crores.

Mr. Nirav Dalal: Okay, that is for the quarter, and for the year?

Moderator: Mr. Nirav, are you done with your question?

Mr. Nirav Dalal: No, no, the voice is cracking, I could not hear.

Mr. Ananda Mukerji: We can't hear you either. I think there is a lot background noise where you are.

Mr. Nirav Dalal: Sorry, that is what; I just wanted the breakup of the other income for the full year and the quarter, you said….

Mr. Ananda Mukerji: Can we come back to you because we really can't hear you, can we contact you separately and answer that question.

Mr. Nirav Dalal: Okay, could you give me the volume and the pricing for the quarter?

Moderator: Mr. Nirav, can you use your handset to ask the question.

Mr. Nirav Dalal: I am on my handset.

Mr. Farid Kazani:	Why don't we contact you and answer your question separately because we really can't hear you.
Mr. Nirav Dalal:	Not a problem.
Moderator:	Thank you very much sir.
Mr. Nirav Dalal:	Thank you.
Moderator:	Next in line, we have Ms. Nikita Khilani from S. K. Santhalia. Over to you ma'am.
Ms. Nikita Khilani:	Sir, again related to your borrowing, the interest costs have gone up substantially quarter on quarter, is that because of the ECB borrowing.
Mr. Ananda Mukerji:	That is right; the interest cost has gone up because of the ECB borrowing.
Ms. Nikita Khilani:	Going forward, can I expect this kind of interest outgoing or will it be higher?
Mr. Ananda Mukerji:	Depends on the extent on whether we do more borrowing or not. I think at this point in time this is the level which we have right now. This also includes some of the upfront costs which are included in when you contract an ECB.
Ms. Nikita Khilani:	Okay.
Mr. Ananda Mukerji:	So, it will depend on as I mentioned we will look at depending on market conditions and if we find attractive prices, we may buy more FCCB in which case this number will change, but at this point based on the

liabilities we have, it will be somewhere around this level.

Ms. Nikita Khilani: Okay, you are not targeting some amount of buyback, it is just based on opportunity?

Mr. Ananda Mukerji: That is right.

Ms. Nikita Khilani: Okay, and sir, what was your average cost of funds for last year?

Mr. Ananda Mukerji: Average cost of funds, I think our main liability, I mean if I leave out the FCCB which is the yield, the main liability out here is really this ECB which we have borrowed and working capital. It should be about 8%, should be the average cost.

Ms. Nikita Khilani: There is no coupon on FCCB?

Mr. Ananda Mukerji: There is no coupon.

Ms. Nikita Khilani: Okay, thank you sir.

Moderator: Thank you very much ma'am. Next, we will be taking the last question. The last question comes from Mr. Sreevatsan from Spark Capital. Over to you sir.

Mr. Sreevatsan: Hi, Ananda, just wanted to hear out your comments, especially on margins for FY10, do we see if the current kind of visibility of not major ramp-ups at this point, and happening FY '10, do you see EBIT margins improving at least given that utilization might improve in some of the one-off cost that we had in Q3 especially will not recur?

Mr. Ananda Mukerji: Sreevatsan, I could not hear you properly unfortunately but if I understand your question, you are really asking about do we see EBIT margins improving in the next year?

Mr. Sreevatsan: Perfect, yes. That was my question.

Mr. Ananda Mukerji: Probably for the year I think we are saying that we expect margins to have a positive bias. I think we have had, if I look at our FY09, we have had a number of reasons why the profits have been below what we expected it to be, some of these reasons of course do continue like the impact of the US recession is probably going to continue for a while, but some of them have been related to the large ramps we have done, those ramps are now stable, so we should see positive impact of that coming in, so overall I would expect to see operating margins improving.

Mr. Sreevatsan: Okay, thanks a lot.

Mr. Ananda Mukerji: Thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Mr. Ananda Mukerji for final remarks.

Mr. Ananda Mukerji: So, thank you everyone, I think we have had a fairly wide range of questions and hopefully we have answered all your queries. If I would sum up, I would say we have had a reasonably good year, and I think it has been a tough business environment overall, as we all have seen but we are happy that we have been able to maintain the guidance which we had given in the middle of last year, and you know, profitability has seen pressures in FY09, but I think we know the reason for that, and we expect next year both growth to be positive as also an improvement in the margins. With that, I will hand you back to Krishnan.

Mr. Krishnan Akhileswaran: Thank you again everyone for participating in this call. If any of your queries are being unanswered, yes you could give us a call at Investor Relations. My mobile number is already with you, 9840055664. Thank you and wish you all a good day.

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