

Firstsource Solutions Limited

Q4 Earnings Conference Call held on April 27, 2007 at 11.00 am (IST) with participants from India, Singapore and Hongkong

Moderator

Good morning ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Firstsource Solutions Limited conference call. For the duration of the presentation all participants' lines will be in the listen-only mode. After that there will be a question and answer session conducted for the participants connected to the India bridge. I would like to hand over the floor to Mr. Krishnan. Thank you and over to you sir.

Krishnan

Thank you Rita and good morning ladies and gentlemen. Welcome everyone and thank you for joining us on our earnings calls of Q4 and year ended March 31st 2007. This is Krishnan, Head of Investor Relations. The financial statements, results, presentation, fact sheet, and press release are also available on our web site www.firstsource.com. The transcript of this call will also be made available on our web site. To take you through the results and to answer your questions we have with us today Mr. Ananda Mukerji, our CEO and Managing Director.

Ananda Mukerji

Good morning everybody.

Krishnan

Mr. Raju Venkatraman, President and COO.

Raju Venkatraman

Good morning everyone.

Krishnan

Mr. Rajesh Subramaniam, our CFO.

Rajesh Subramaniam

Good morning.

Krishnan

And Mr. Farid Kazani, our Finance Controller.

Farid Kazani

Good morning to all.

Krishnan

We will be starting this call with a brief presentation providing an overview of the company and its performance followed by a Q&A session. Please note that anything said on this call which reflects our 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. A 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 I would like to turn the call over to Mr. Ananda Mukerji, our CEO and Managing Director.

Ananda Mukerji

Since this is the first time we are probably presenting to a lot of the participants on this call, we thought it will be helpful if we can take you through a little bit of a background of the company and its strategic positioning and then talk specifically about the financial numbers for Q4 and the fiscal 2007.

We are a top 3 pure-play BPO company in India. We were founded in 2001. Initially we were called ICICI OneSource and in November 2006 we rebranded ourselves as Firstsource. In terms of the snap shot of the company we are about 14,400 employees as of March 31st 2007. We operate

out of 24 global delivery centers across India, US, UK, and Argentina and have 76 customers as of this point.

We operate in three major verticals - Financial Services, Telecom and Media, and Healthcare, and focus on processes which are specific to enterprises. These include processes such as mortgage processing, retail bank processing, credit card processing, collections, receivables management, provisioning and logistics, customer service, research and other enterprise specific processes. We do not do work on horizontal processes like F&A and HR.

Our revenues have grown at a compounded growth rate of 82% from 2003 to 2007. During the same period both our EBITDA and Net Income margins have expanded. Our EBITDA was 11.5% in fiscal 2004 and 20.8% fiscal 2007. In 2004 our PAT was at a breakeven level, for fiscal 2007 we are at 11.6%. This expansion in margin has come in as a result of improving process efficiency and benefits of operating leverage.

We believe the offshore BPO industry is a very large and a rapidly growing market. Today it is arguably one of the fastest growing industries anywhere in the world. We have an early leadership position in this industry and over the last couple of years have been amongst the top 3 pure-play Indian BPO companies. We are strategically well positioned to maintain and grow our leadership, through a combination of factors which include focus on verticals which have large market potential and our domain expertise. As of 31st March 2007 we have 76 clients and well-established relationships with a number of large global companies. We have a strategic partnership with Metavante, which positions us quite uniquely in the North America banking industry. We have a track record of executing strategic acquisitions which have added capabilities and value to our business. We have a well-experienced management team who has really added a lot of capabilities and brought in new dimensions to our business over the years. Part of the focus we had as a company as we evolved in the last 4 or 5 years has been to diversify our business in terms of service lines, geography, revenues and capability and today we believe, we have a well diversified business model.

To start with, if I look at the BPO market, globally the addressable offshore BPO market is between \$120 billion to \$150 billion. The market in 2005 was about \$11 billion; so there is a 12 times growth potential from the addressable market to what has been penetrated till now. Of the portion which has been penetrated, India's market share is just under 50%, which clearly positions India as a fairly dominant player in the global BPO offshore market. The forecast for the 5 years between

2005 and 2010 as per the NASSCOM-Mckinsey 2005 report is that the industry will grow from \$5 billion to about \$25 billion which is a compounded annual growth rate of about 37%. This is clearly a fast growing market with a lot of potential for future growth. The 3 verticals we operate in address 55% - 60% of the BPO opportunity.

Arguably, amongst any of the Indian BPO companies we have one of the best roster of customers. In the BFSI segment we work for 3 of the 5 largest US banks and 5 of the top 10 largest card issuers. In Telecommunications, we work for 2 of the world's top Telecommunication companies. In Healthcare we work for 3 Fortune 100 healthcare companies in the US. These customers are clearly the top of the market in their segment. This helps us in two respects a) Enables us to grow as these are large companies who have significant outsourcing requirements and b) Help us gain credibility and are credible reference.

Over the last 3 years we have been able to grow not only the number of customers that we have, but also the depth of relationship with our customers. For example, if you look at the number of customers in different revenue buckets, in the greater than Rs. 500 million a year bucket, we had just 1 customer in fiscal 2005, we had 3 customers in fiscal 2006, and we have 5 customers in fiscal 2007. This clearly shows that we are able to deepen relationship with our customers and establish larger and larger accounts with them.

I will spend a couple of minutes on our strategic partnership with Metavante. Metavante is a top 3 US banking technology and payment processor, the other two companies include Fidelity and Fiserve. Metavante has a dominant position particularly in the mid market segments in the banking industry. They have relationships with over 1000 banks in the US, and over 90 of the top 100 banks are their customers. The proposition is for us to combine their technology platforms and client relationships with our ability to run a large-scale operation efficiently and the domain expertise that we have in banking to provide an end-to-end platform based global BPO solution. We believe this is a segment of the market which is underserved today and which we believe is where the next wave of offshoring and outsourcing will come from.

I will spend a couple of minutes on our strategic acquisitions, this is something which we believe is a very, very important tool in our armory i.e. the ability to identify the right acquisition, to value it correctly, close an acquisition, and then integrate it and create value. Over the years, we have used acquisitions as an ability to enter new market segments and to bring in and grow new capabilities. Just to give you a couple of examples, in September 2004 we acquired a company

called Account Solutions Group, which gave us access to the collections and receivables management market in the US. At that time we acquired the company, they had about 300 collectors operating just out of the US. We currently have over 500 collectors in the US and over 200 collectors in India and have also expanded the business from the US market into UK and India market.

In December 2006 we acquired a company called Business Process Management. This company focuses on claims adjudication and does a whole range of high end complex adjudication work with expertise across 40 different business systems. This coupled with our ability in mail room and claim processing services really widens our capability and creates an end-to-end proposition for this industry

Our growth strategy and our intention is to continue growing the top line aggressively. We believe that top line growth is going to be the critical determinant of long-term success in this industry. We have grown it over 50% in the last year, and we intend to grow it at around 50% this year. Over the next few years we intend to be in a high growth mode.

I will next discuss the diversification of our business model. Our top client concentration has come down from 27% in FY'04 to 14.5% in FY'07. We have seen significant diversification across geographies. Earlier UK probably accounted for 70% of our revenues, today there is roughly a 50-50 split between the UK and the US. We believe this split is actually advantageous as it diversifies us in terms of currency risks, client concentration and insulates us from some of the political and economic changes which take place in either of these geographies.

In terms of our growth strategy; the three elements include. i) To continue mining our existing customers. A very, very large part of our business comes on the back of existing customers. In FY 2007 94% of our revenues came from existing customers; Our penetration in these customers is still fairly low and we see a lot of opportunity to penetrate further. ii) We intend to continue acquiring new customers both through our marketing efforts as well as through the strategic partnership that we have and iii) Strategic acquisitions.

On our capability side, i) we will continue investing in our Middle management, that would be a key for success in the future. While we are a very strong brand as one of the top players and are able to attract some of the best talent in the country, we also focus and invest a lot on growing our middle management. ii) We focus on process excellence and a testimony to that is the fact that we

won two awards last year for process excellence, one in the UK and one in the US. iii) We plan to continue investing in proprietary technology platforms in a bid to ensure that we deliver an increasing part of our service off our own platform.

With that as an overall background of the company I will take you to our financial summary for fiscal 2007 and for the quarter.

If I look at the way our numbers have moved over the last four quarters, we have seen a significant growth quarter-on-quarter, both at the top line level, as well as at the margin level. Comparing Q1 2007 to Q4 2007 we have grown revenues from Rs 1608 million to Rs. 2747 million, EBITDA from 18.2% to 20.7%, and PAT from 8.5% to 12.6%. If we adjust margins for other income, EBITDA has gone up from 19.5% to 20.1% and net income from 9.9% to 11.9%.

On a year-on-year basis , revenues have grown by 52.8% and PAT by 294%. PAT has grown nearly four times, and as I had mentioned earlier, adjusting for other income EBITDA margins are just under 20% and net income at 10.5%.

On a quarter-on-quarter basis comparing Q4 2007 with Q4 2006 our revenues have grown 70% and net profit has gone up by 60%. . Adjusted for other income in Q4 EBITDA is at 20.1%, EBITat 12.8% and PAT at 11.9%.

I will talk a little bit about some of the other highlights during this fiscal year. Our IPO was well received by the market, and we listed on February 22. We did a significant acquisition, which was the acquisition of BPM, Inc. in December 2006 and entered into a strategic partnership with Metavante in April 2006.

We grew our clients from 54 in 2006 to 76, a net addition of 22 clients. Our employee base went up from 8350 to about 14,500. We commenced operations in the UK and Argentina and expanded our operations in the US. We added 13 centers in fiscal 2007, which has resulted in addition of a fair amount of capacity and the benefits of this scale should be witnessed in the subsequent years. Currently we have two centers under development one in Philippines and the other in India. Over the last fiscal year our total seats have increased by about 4500.

We have seen significant profit enhancements which have resulted from:- maturing of processes, benefits of operating leverage as fixed costs have starting to get amortized over a larger revenue base, and due to improvement in overall operational efficiency.

As a result of our IPO, there has been a significant movement in the Shareholder Funds, and has resulted in the increase in our cash and liquid assets. The acquisition which we did has increased our goodwill from Rs. 407 crores to Rs. 542 crores, and loans from 1300 million to 1900 million. With that I will hand you back to the moderator and then open it up for questions.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions kindly press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line we have Mr. Rohan from Keynote Capital. Over to you sir.

Rohan

Hello sir.

Ananda Mukerji

Hello.

Rohan

Hello and congrats for great sort of results.

Ananda Mukerji

Thank you.

Rohan

Sir how many new employees are you planning to add in FY08?

Ananda Mukerji

In fiscal 2008 we are expecting to grow about 50% in revenue terms. We do not really look at our business in terms of headcount because we have different parts of business, where some of it is onshore in the US and UK and of this is offshore. We forecast more in terms of revenue as opposed to headcount.

Rohan

Okay sir, and can you tell us something about your domestic BPO market, how much revenues will be attributed next year?

Ananda Mukerji

We see the domestic BPO industry as a very, very significant market opportunity. The market is absolutely right for high quality service providers who are able to bring in value and experience from international operations into this market place. Next year domestic revenues will probably account for 10% of our business.

Raju Venkatraman

Also the McKinsey report talks about the domestic market, which is at about \$1.6 billion and is maturing at a rapid pace. We want to leverage our capabilities and our relationships here.

Rohan

Sir, how much revenue is attributed to Metavante?

Ananda Mukerji

The Metavante relationship is something which we started this year and addresses a new market with a new proposition. We already have three customers out of our Metavante relationship and are seeing a lot of traction in the market place. The Metavante relationship is a long-term focus for us and we see a lot of growth coming in the future from this relationship.

Rohan

Okay, and final question, can you disclose your offshore onshore revenue mix?

Rajesh Subramaniam

Our US and UK operations would be about 31% of our revenues.

Rohan

Okay, okay, thank you sir.

Suveer Chainani (Macquaire Securities)

Yeah, good numbers Ananda, congratulations, I look forward to meeting you sometime.

Ananda Mukerji

Sure, thank you.

Suveer Chainani

One simple question, what do you see as the advantages and disadvantages as compared to a pure play and integrated IT-BPO player? What are the good things, the pros and cons of being in one seat or the other?

Ananda Mukerji

If you look at the market place you will see that both categories of companies are doing very well and growing rapidly. IT and BPO businesses are very different in terms of -: their dynamics, the

way the business is to be run and the way the buying decisions are made. Successful IT companies who have successful BPO businesses do recognize this difference and run BPO as a separate business. If you look at the market place right now both are doing very well, and it is really difficult to say whether one is more advantaged against the other. Also we do not see buying behavior from customers which indicates that customers want an integrated solution. Customers look at buying the two services quite distinctly and it is quite possible that they will buy from their IT vendors but it is by no means certain that they will buy from their IT vendors.

Suveer Chainani

Got it, thanks. And house keeping, did you say you are not too much focused on horizontal processes and more focused on vertical processes, did I hear that correct?

Ananda Mukerji

That is right, what I meant was that in the industries we operate in, the processes that we do are specific to the business of those industries, as opposed to more horizontal capabilities like finance and accounting and HR, which cut across industries.

Suveer Chainani

Alright, thanks.

Ajay Mathrani (Deutsche Bank)

Yeah, hi, thanks, and good morning. I have one question on profits, how would have the EBITDA margins moved without acquisitions this quarter?

Rajesh Subramaniam

EBITDA on total income for the year was 20.8% and in Q4 was 20.7% and in Q3 it was 22.8%, our acquisition came in only in Q4, so for a good part of the year we have not had an acquisition which means that the impact on my margins is not material. The revenue growth in Q4 v/s last quarter has been 24% and excluding acquisition of BPM the growth is approx 16%

Ajay Mathrani

Okay, okay, thanks Rajesh.

Ananda Mukerji

Ajay the other thing to point out is that due to seasonality of our business, the Q4 margins are relatively high. If you look at our past, Q4 tends to be higher than Q3 or Q1, which is driven as mentioned earlier by the seasonality of our business. In addition, this quarter has seen head count increasing towards the end of Q4., on account of a large ramp, which has impacted Q4 margins to some extent and some of this impact is going to come in the next quarter.

Ajay Mathrani

So what, volatility say in both revenues and margins would you expect on a Quarter on Quarter basis, what is the sort of range that we could see, not guidance but you know how much would it vary?

Ananda Mukerji

It depends on the extent of the growth which we have during the quarter. When we have high growth it tends to depress margins for the next quarter and then it picks up subsequently. When we have relatively stable growth the margins tend to get more towards BAU. The environment we intend to operate in the next 2 to 3 years is high growth high investment, and in this environment we expect our net margins to be in the 11% to 13% range.

Ajay Mathrani

Sure, thanks. What do you think is sustainable ROE in this business? Do we think that our return on equity should move up from these levels and what do you think it could get to and stabilize at?

Ananda Mukerji

Our ROE for fiscal 2007, excluding the capital which we raised during the IPO is close to 16%. For the next 2 to 3 years we intend to continue to be in a high growth mode and I expect our ROE to fall in the range of somewhere between 16% to 20% during the same period..

Ajay Mathrani

But if you have to look at steady state, where do you think in steady state the ROE would go to for this period?

Ananda Mukerji

It is hard to say in terms of steady state, because at this point in time we do see this industry needing to continue growing rapidly and growing at a 50% plus growth rate. I would say our target ROE is about 20%. However, today our focus is to ensure that our top line growth is above the industry average, and while we are having top line growth we keep profitability levels in our targeted range.

Ajay Mathrani

Sure, thanks, that is all I had.

Raniit Shinde (Economic Times)

Yeah, hi, congratulations for good results. My question is regarding goodwill. We see a big jump in goodwill from around Rs. 400 crores to Rs. 541 crores. Can you please explain why?

Rajesh Subramaniam

We acquired a company called BPM, on the 29th of December. The goodwill increase that you see is attributed to the acquisition of this company by us and is reflected in our balance sheet post the consolidation of BPM.

Raniit Shinde

Okay, and we also see a big jump in cash and equivalent, so do we see anymore acquisitions going ahead?

Rajesh Subramaniam

We will acquire this year and it is a stated objective of raising capital from the market.

Raniit Shinde

Okay, thank you.

Mitali Ghosh (DSP Merrill Lynch)

Yes, thanks, congratulations to the team on a great quarter and a great year.

Ananda Mukerji

Thank you Mitali.

Mitali Ghosh

In fact you gave quite a robust guidance for next year at 50%, so if you could just walk us through what are the trends in different businesses, basically collections and also in your transaction processing and may be some of the customer care kind of work that you do, and also within that I know the Metavante relationship is a strong one you are looking at, so any sense of how much you think that could contribute to this 50% kind of guidance?

Ananda Mukerji

As you would have seen last year a big part of our revenue came from existing customers, this year 94% came from existing customers. Today we have a very, strong roster of customers and we expect a big part of our growth to come from existing customers. On the BFSI side we see the partnership with Metavante starting to bear fruit, we are getting customers and we are seeing traction in the market place. We will see growth coming from Metavante. We see our collections business growing both in the US as well as in the UK. On the telecom side we have seen a lot of growth in the last year in terms of new customer wins and growth of existing customers. As you might be aware of, we recently won a very large contract from Hutchison, delivery for which is under implementation and we expect telecom revenues to grow quite significantly. On the

healthcare side with the BPM acquisition our proposition to the market is deeper than what it was a year back and that is going to help us win more business both onshore and offshore. So to summarize I see strong growth coming from all the segments and we are relatively agnostic to which vertical the growth comes from.

Mitali Ghosh

Thanks and this is a follow up to that, in the context of some concerns on the US economy, I wanted to understand how that could impact or any impact of that you are seeing on the collections business positively or negatively and the kind of exposure you may have in mortgage?

Ananda Mukerji

The collections industry does go through cycles. During times of economic slowdown while collectability reduces, the extent of bad debt increases. People are not able to pay due to which the volume of work increases and so on an overall basis, we think it will be positive for us. We do not have exposure to the US mortgage industry, our exposure in the US is in the banking industry. In fact overall, slowdowns is something that in a sense has positive bias for this industry; while on the one hand your existing volumes may come down if the business of the customer is going down, but the propensity to look for cost efficiencies and savings tend to be far higher in a downturn than it is an upturn.

Mitali Ghosh

Okay second thing is on the margin side, if you could give us a sense of the dynamics we should look for in the coming year and what operational efficiencies, are you likely to see leading to margins improving or increasing?

Ananda Mukerji

We expect to be in a growth mode in the next 2 to 3 years. We do not intend to give specific guidance on profit or profitability. The drivers you have seen last year would continue to play a part this year i.e.. improvement in operating efficiency across processes , and benefits due to economies of scale. In the next 2 to 3 years when we intend to really continue growing the company aggressively, we expect our margins to be in the 11% to 13% range.

Mitali Ghosh

Okay this is 11% to 13% PAT to operating income.

Ananda Mukerji

to total income.

Mitali Ghosh

So directionally flattish or upwards?.

Ananda Mukerji

That is right; we would try to maintain this profitability.

Mitali Ghosh

Okay, last few questions from me, the tax rate came down very sharply this quarter, if you could explain a bit you know for the whole year I think it is at about 6%, is that what we should expect going forward?

Rajesh Subramaniam

We did not have an absolute guidance on transfer pricing when we started the year in April 2006, so we had provided taxes based on best estimates in the first three quarters. Our statutory auditors have undertaken a transfer pricing study and whose recommendations we have implemented in Q4 and based on which our tax liability for Q4 was reduced. This has brought the overall tax liability for the year to the final 6%. We are awaiting the results of some of the deeper elements of the transfer pricing study which is still being undertaken,. At this moment we do not want to give any specific guidance on our tax %.

Ananda Mukerji

To add further to that point; The Onshore business, which includes BPM, is growing as an overall part of our revenues and this year we expect our domestic revenues also to grow, this should see our tax rate going up, and we don't see our current taxes as representative of what it would be in the future.

Mitali Ghosh

So what is the number that one should look at modeling may be as a range possibly?

Ananda Mukerji

It is really hard for us to say. We are looking at all possibilities. As Rajesh mentioned some of the onshore taxation is still under study and the ramifications of which in terms of the transfer price and other mechanisms are not entirely clear to us, which makes it hard for me to give you a specific guidance.

Mitali Ghosh

Okay, thanks a lot and all the best.

Hardik Shah (Asit C Mehta)

Good afternoon sir. Congratulations on a great set of numbers.

Ananda Mukerji

Thank you.

Hardik Shah

Actually your attrition rate is 43% currently, can we have your past figure, what was there in previous quarter?

Ananda Mukerji

42% is for the year, there is some seasonality in attrition, it typically tends to be higher in Q3 and Q4. The 42% number which you had is for the year. In Q4 it was about 12.7% and in Q3 it was about 12.6%.

Hardik Shah

Okay sir, any specific steps you are taking to bring down the attrition rate?

Ananda Mukerji

Attrition is a fact of life in our industry. Attrition is different in the various pockets of our business; it is particularly high in the metros. We have added centers outside of metros and our expectation and the early indications are that the attrition in those areas is significantly lower. The entire industry grapples with attrition and it is something we have to deal with.

Hardik Shah

And what is the number of ESOP outstanding at the end of the year? Hello.

Ananda Mukerji

Yes.

Rajesh Subramaniam

About 36 million.

Hardik Shah

36 million. And sir can you tell me what is your seat addition plans for the coming years?

Ananda Mukerji

We have added about 4500 seats in fiscal 2007. We have a capex plan of Rs. 100 crores for next year. We have created capacity a little bit ahead of the curve this year , and we will see how much capacity we need to add going forward.

Hardik Shah

Sir if you would look at the figures of the US and Canada it has grown 37%, slightly lower than the growth of the rest of the geographies, any specific reason for that?

Raju Venkatraman

The growth in the US is 37% and during the same time the UK grew by about 51%. The key message here is that the US has not slowed down, however we have seen stellar growth from our existing customers in UK. This kind of shift will keep happening between markets and between industry segments, but overall the secular trend is that it has grown.

Ananda Mukerji

If you look at the past 2 to 3 years, the US has actually increased its market share in our overall mix from say 25% to the current ~50%. We will see some shift year-on-year but overall the market share between the US and UK stands pretty much stable.

Hardik Shah

Okay sir, thank you very much.

Kunal Sangoi (Edelweiss Security)

Yeah, thank you and congratulations to the management team for a good quarter and whole fiscal 2007.

Ananda Mukerji

Thank you.

Kunal Sangoi

My question is relating to the growth strategy that you mentioned that one of the areas that you are looking is investment in the proprietary platforms, could you give us more details in terms of what are the investment areas that you are looking in, you know, what are the kind of platforms that you are looking to develop in the near future to bring up the operating efficiencies? And secondly, what are the other investment areas, apart from these proprietary platforms, that the company would be looking to increase for the overall growth?

Ananda Mukerji

Currently about 40% of our revenues are on output based pricing. In a sense, these revenues are not priced on the basis of hours or FTEs or seats but priced on the basis of output. Output based pricing requires one to have their own platforms for delivery, for example we have our own transaction work flow engine which translates the entire transaction process from image to fulfillment of the transaction. We also have our own platform which we use for collections business. The aim is to increase the percentage of our revenues which comes out of output based pricing. The platforms could be those developed in house, or through partnerships. For example, the Metavante partnership, gives us preferential access to Metavante's very broad suite of technology platforms for the banking industry. To get to a model which is output based pricing, we would really look at developing our BPO proposition around specific technology platforms in a bid to offer the customers an end-to-end proposition.

Kunal Sangoi

Okay that is helpful. And secondly you did mention that you are focusing more on developing processes that are vertical focused. Could you give us more detail as to what are the other processes that the company is looking forward to develop?

Ananda Mukerji

In BFSI segment, we are largely in the banking space. We work for banks and credit card companies. We do loan processing, mortgage processing etc. We handle transactions for our

customers, for example, for a mortgage bank in the UK, we handle the entire process from the time a loan application arrives at the branch till the time the underwriting decision is taken. The Bank takes the underwriting decision and then passes the transaction back to us. This is basically the core process for the bank's operations and is an example of what we mean by a vertical process. Our aim is to really get to do more and more of these processes within our chosen industry segments.

Kunal Sangoi

Okay, do we have any number of processes that we currently handle and what was it earlier, do we have some numbers?

Raju Venkatraman

Currently we handle 400 processes and we were at approximately 325 about 6 months back.

Kunal Sangoi

Okay, okay, and so that was overall, and in BFSI do we have the similar numbers?

Ananda Mukerji

We do not have the split up unfortunately at this point in time.

Kunal Sangoi

Thanks a lot, and what is the hedged number of forward contracts and the hedge contracts that we have?

Rajesh Subramaniam

At this point in time we are about 60% covered for next year.

Kunal Sangoi

At what rate?

Rajesh Subramaniam

We do not want to get into the rates and respective amounts, however as I mentioned we are 60% covered and the guidance we have given will be delivered in terms of rupee for fiscal 2008.

Kunal Sangoi

Okay, thanks a lot and all the best.

Harmendra Gandhi (Brics Securities)

Congratulations to the management on a good set of numbers.

Ananda Mukerji

Thank you.

Harmendra Gandhi

Most of my questions have been answered, I just want to ask you one thing. Do you see any change in behavior of your customers in terms of expectation from the vendors, I mean what kind of, from the last year to the present moment, and if cost is the main factor still and what kind of cost saving are the customers looking at?

Ananda Mukerji

That is a very good question, We have seen quite a significant change in the expectations and way customers view their outsourcing partners. We are clearly past the stage where customers seek to get only cost advantage and / or process efficiency. Today customers expect their vendors to help them improve their revenues, improve their core business and to make them more competitive in the marketplace. There is a clear a shift from the initial basis on which the customers would have

outsourced their business, which in many cases would have been to reduce costs. That's changing very quickly; I would say we are in the third phase of outsourcing, where customers now look at their vendors and say, Beyond cost and process efficiency which we take for granted, what is the value you can add to my business?.

Harmendra Gandhi

Okay, do you come across MNC vendors as competitors also like Accentures of the world?

Ananda Mukerji

All the MNC vendors are very much competitors in this market place and in each of our market segments, MNC vendors compete both for what we do onshore as well as what we do offshore.

Harmendra Gandhi

And why do you say you are not focused on horizontal processes, is there any reason for that?

Ananda Mukerji

We believe that domain expertise is critical in securing new business and domain expertise is very vertical focused. This is the path we have chosen to go, it is not that one is right or the other is not right. We believe that our value proposition is managing a customers core business process.

Harmendra Gandhi

And do you really think at some point of time there may be a backlash, especially in Europe, against this kind of offshoring?

Ananda Mukerji

Resistance to offshoring has always been there. We do not think it is new; any process which involves movement of jobs necessarily involves some amount of resistance from the constituents who are affected by the same. If a company is moving operations, whether it is IT, BPO or

manufacturing operations from one location to the other, the loss of jobs does create problems for them. There will be pressures and resistance, however it is now well accepted in all the markets we operate in, that offshoring is a way of life and it will happen.

Harmendra Gandhi

Okay and how does the KPO part fit into the BPO business? Is it, I mean, why should we have KPO part because the scale is not there I suppose?

Ananda Mukerji

Well, it is true that the KPO scale is not there. BPO is certainly larger and KPO is the smaller part of the pie, however KPO clearly has its own value proposition. My personal view is that India needs to be in the entire spectrum of outsourcing activity, whether it is from pretty low end routine work to very high-end complex work.

Harmendra Gandhi

Okay, thanks a lot.

Ananda Mukerji

Thank you.

Ajay (India Capital)

Thanks and congratulations on great set of numbers. Couple of questions what is the growth in this quarter by vertical and geography.

Ananda Mukerji

The overall growth has come as a result of healthcare growing significantly in this quarter because of the acquisition and Telecoms and media growing due to a large ramp. As I mentioned earlier on

in the call we are fairly agnostic to where our growth comes from within our chosen verticals. On an annualized basis we have seen all our verticals grow.

Ajay

Sure, how much of your growth in this quarter came from the acquisition?

Rajesh Subramaniam

If we exclude the acquisition our revenues quarter-on-quarter would be up about 16%

Ajay

For your next year's guidance, what sort of thinking and visibility goes into your 50% growth guidance?

Ananda Mukerji

There are various factors behind these numbers. We have visibility on business from our existing customers, a pipeline of new businesses and expectation of customer churn. All of that gets fitted into the guidance of 50% growth.

Ajay

Sure, and sir this guidance is on a consolidated basis right?

Ananda Mukerji

That is right.

Ajay

Okay great, thanks, thank you so much.

Ruchit Mehta (HSBC)

Yeah, hi, good morning gentlemen and congratulations on good results. I just wanted to know if you could comment on how the rupee impacts your margins given the way it has been appreciating, if it does continue to appreciate what sort of impact can be there on the profitability?

Ananda Mukerji

As the way our business model is we do have some natural hedges in terms of revenues and costs in dollars and pounds. We are well diversified across dollar and pound exposures and historically we have seen that these two have not necessarily moved in the same direction. Besides, this year we would see the domestic business grow to 10% of revenues.. and in effect the dollar changing does not have quite as much impact as it would, if we did not have those natural hedges. Our expectation is that a Rs. 1/- change in the dollar impacts our margins by about 0.3%

Ruchit Mehta

Okay and what is the capex size next year for fiscal 2008?

Ananda Mukerji

The total capex is about Rs. 100 crores.

Ruchit Mehta

Okay, thank you very much.

Sudhakar Prabhu (Span Capital)

Congratulations to the management for a good set of numbers. My question is regarding the goodwill in the balance sheet, you have goodwill of Rs. 540 crores in the balance sheet with a revenue of around Rs. 800 crores and profit of Rs. 150 crores. Do you think this goodwill is little bit on the higher side? Secondly how much goodwill have you written off in the current year and how much do you plan to write it off in the future?

Ananda Mukerji

The extent of goodwill is clearly a function of the strategy we have followed. As I mentioned earlier we have done six acquisitions and we have done it over the early stage of the company's evolution, the intention was to create the building blocks for our business model and to get into new businesses and capabilities. So the proportion of goodwill as compared to proportion of the revenue is something which you have to see over time. We do not believe this number is high because goodwill is an investment in the business and we see that getting us returns over time. The policy we follow for goodwill is as per the accounting standard, to test the same for impairment every 6 months and none of the goodwill has ever been impaired.

Sudhakar Prabhu

Thanks.

Chinmay Sathe (DSP Merrill Lynch)

Yeah, hi, can you just give us a sense of the one time expenditure on account of the BPM acquisition for the personal expenditure part, as the personal expenditure during the quarter was around Rs. 150 crores, so was there any one time involved in that?

Rajesh Subramaniam

There is no one time cost associated with the BPM acquisition. The increases in our costs between Q3 and Q4 is linked to our growth. In addition, the increase in costs as Ananda mentioned earlier, is due to the ramp up of one of our telecom client for whom we have started business towards the end of Q4 and for whom we will continue ramping through our next quarter. We have also consolidated the BPM acquisition which is reflected in the increase in our costs. There is no one time event per se.

Ananda Mukerji

We added 3500 employees in this quarter, and as we spoke earlier in the call, cost of growth due to ramps tends to increase expenses ahead of time and skew quarter-on-quarter margins. There is a marginal impact this quarter and we will see some impact in the next quarter.

Chinmay Sathe

What was your seat utilization during the quarter and what was the utilization rate for March and for December and for full year FY07?

Ananda Mukerji

Our business has 3 or 4 different components; while seat utilization is a relevant measure of productivity for certain parts of our business, it is not a relevant measure of productivity for other parts of our business. We have businesses where the client pays for the entire capacity of seats that they have utilized. Then we have models like collections which are priced on an output basis Overall as a company seat utilization will not be a meaningful productivity metric, What is more meaningful is the seat fill factor i.e. the percentage of our seats that have actually been utilized for production Today we are at a 71% seat fill factor which is fairly low compared to where we have operated historically i.e. closer to 90%. In the last 1 year we have added significant capacity and the capacity additions have been of economic size and scale which get utilized over a period of time.

Chinmay Sathe

So where do we see this number for the next full year?

Ananda Mukerji

We will certainly see this going up, I would not want to speculate on a number.

Chinmay Sathe

Okay, thanks.

Neerav Dalal (Capital Market)

Hello, good day sir. I wanted the comparative figures for the sequential quarter for the industry verticals.

Ananda Mukerji

We do not have it at this point in time. Can we send that to you? Would that be alright.

Neerav Dalal

Sure, not a problem. And the other thing I wanted to know is whether a specific industry is for the specific geography or how is it?

Ananda Mukerji

We are seeing overall growth for example if you look at our healthcare vertical it is only in the US geography, we do not do healthcare in the UK. In Telecoms, we are in both UK and US, and this year UK has grown faster than the US, however we believe that this year US will catch up. . In the BFSI segment US is probably growing faster than UK. The ratio changes a little bit quarter-on-quarter, however there is no real trend that we are reading.

Neerav Dalal

And if you see the segmented results for the quarter, UK has better margin than US. Is there any seasonality in it?

Farid Kazani

We monitor client level profitability We do not monitor specifically the geographic profitability. What you see in the segmental results is split of geographic revenues less the direct cost and expenses incurred at each geography and excludes the unallocated costs incurred in India .

Neerav Dalal

Okay, right. Thank you.

Sumit Poddar (Anand Rathi Securities)

Hello sir and congratulations on the results. I have a question about the guidance. Have we considered the inorganic growth in 50% or is it purely organic growth?

Ananda Mukerji

No, that is purely organic growth.

Sumit Poddar

Okay, so any kind of inorganic growth will be over and above this 50%.

Ananda Mukerji

Yes.

Sumit Poddar

Okay, the other question was related to how open are your clients as far as the pricing is concerned given the fact that the rupee is appreciating, no doubt we are hedged to 60% extent, the lever basically here remains as the pricing, how open are they as far as the pricing is concerned?

Ananda Mukerji

Cost indexation is built into our contracts. We have been able to go back to customers for price increases. and given the kind of work we do for our customers, there are levers that the customers would be open to looking at for resetting the prices

Sumit Poddar

Okay and those indexation are they related to the currency movement?

Ananda Mukerji

Some are linked to the currency

Sumit Poddar

Okay, and if I take your overall portfolio, how much percentage would be currency linked, if you have that number, I mean.

Ananda Mukerji

No, we do not have that number at the moment.

Sumit Poddar

Alright, and what do you see as far as the attrition is concerned, what do we see as an industry specific thing to reduce the attrition? I mean is there any industry related initiative that can really reduce the attrition?

Raju Venkatraman

As of today the people who are joining this industry are not extremely aware of the pluses and minuses There is a lot of negative perception too about us and we as a body are working towards and trying to change this perception. The micro level issues we deal with include ensuring that we profile the people right, i.e. we don't bring in people who are over qualified for these kinds of jobs etc. To your specific question, as an industry all of us are working very hard, we analyze the reasons why people are moving out? ; Are they leaving the industry ?, Are they moving to other places? , If they are moving within the industry there is a little bit of a concern. All these we believe are a short term phenomena like we had in the software industry in the mid 90s.

Sumit Poddar

Okay, and how do you see productivity or in fact the delivery getting impacted because of the attrition, I mean is the client really getting impacted

Raju Venkatraman

So far no, but that is an excellent question. Attrition is a key concern for us, as high attrition can become a quality issue. As of today in spite of the rising attrition levels, we have been able to manage service level agreements and the quality of our delivery. We lay strong emphasis on training and ensuring that we bring people up to speed with the real production environment that we deal with day in and day out.

Sumit Poddar

That is great. Thank you so much and all the best.

Ananda Mukerji

Thank you.

Bhairavi Gupte (IL&FS)

Yeah, good afternoon sir. My question is related to your deal with Hutch, could you just elaborate on that?

Ananda Mukerji

Yes, we do a whole range of customer service work in five circles for them.

Bhairavi Gupte

Alright, and you have already set up the 4 centers or you in the process of doing that?

Ananda Mukerji

The centers are set up and the operations have gone live.

Bhairavi Gupte

Alright, and each center has 2000 seats or is it overall 2000 seats?

Ananda Mukerji

Collectively.

Bhairavi Gupte

Collectively. Thank you sir.

Moderator

Thank you very much ma'am. At this moment, I would like to hand over the floor back to Mr. Mukerji for the final remarks. Over to you sir.

Ananda Mukerji

In summary, I want to thank all of you for getting on this call. To emphasize the highlights of the year. We have had a good year in terms of revenue growth, and margin expansion. We have progressed on our mission to really build a global delivery footprint across different countries. We have had a significant foray into what we believe is a very, very high growth and huge opportunity in the domestic market. On the strategic side, we started our partnership with Metavante, which is for the BFSI segment in the US. We completed the BPM acquisition, and of course by listing we made the transition from a private company to a public company. We look forward to build strong relationships with investors in India and abroad. With that summary I will hand over to Krishnan to wrap up.

Krishnan

Thank you again everyone for participating in this call. I apologize for any inconvenience caused due to echo effect and the resultant inconsistent call quality. If any of your queries have been unaddressed or if you need any further clarification you can also log into our evening conference call scheduled for 6:30 pm IST. You can also additionally contact our investor relations for any additional queries. Thank you so much and have a good day.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

Q&A session on the Q4 earnings conference call held on April 27th 2007 at 6.30 pm (IST) with participants from UK, US and India

Moderator

Good evening ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Firstsource Solutions Limited conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, we will conduct a Q&A for the participants connected to the International Bridge. After that, the Q&A session will be conducted for the participants connected to the India Bridge. I would like to hand over the floor to Mr. Krishnan. Thank you and over to you sir.

Krishnan

Thank you very much Rita. A very good morning to all the analysts from US, good afternoon to the analysts from UK, and a very good evening to the analysts from India, welcome everyone and thank you for joining us on our earnings call of Q4 and year ended March 31st 2007. This is Krishnan, Head of Investor Relations. The financial statements, results, presentation, fact sheet, and press release are also available on our web site www.firstsource.com. The transcript of this call will also be made available on our web site. To take you through the results and to answer your questions, we have with us today, Mr. Ananda Mukerji, our CEO and Managing Director.

Ananda Mukerji

Hello everybody.

Krishnan

Mr. Raju Venkatraman, our President and COO.

Raju Venkatraman

Hello everyone.

Krishnan

Mr. Rajesh Subramaniam, our CFO.

Rajesh Subramaniam

Hello everybody.

Krishnan

Mr. Farid Kazani, our Finance Controller.

Farid Kazani

Hello everyone.

International Moderator

Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International bridge. Please press *1 to ask a question. The first question is from Mr. Joseph Foresi with Janney Montgomery.

Joseph Foresi

Hi, guys. My first question is about the labor supply, I was wondering if you could give us some idea of how you see the labor supply playing out in fiscal 2008 and in what direction do you the attrition rates headed?

Ananda Mukerji

There is a very large talent pool in India and while given the high growth of the BPO industry there is a pressure on labor, we really do not see labor supply as a significant challenge at this point in time. To combat this challenge, we are growing our delivery footprint across India, initially for example, we had operations largely in Mumbai and Bangalore; today we have operations across many other cities. We went to other metros like Kolkata and Chennai, and now are expanding into a number of other next tier cities and so we do not see labor supply as a big issue. Attrition is a real factor in this industry, it is something we have to live with and is particularly relevant in the metros, where some of the supply constraints start kicking in and the demand supply factors cause attrition to spike up. In the large metros we believe attrition would continue to be a challenge. We expect however that attrition rates in the other metros and in tier II cities to be considerably lower than the large metros. On an overall basis we believe we would be able to manage attrition. Our current business model factors in the attrition levels that we are operating in and we have been constantly focusing our efforts to improve the same. Attrition is something we factor into our ability to provide the business numbers.

Joseph Foresi

So is it safe to say that you have characterized attrition over a 2 or 3 year period. So looking forward as the industry starts to evolve, you would expect may be attrition rates to come down and of course margins to expand after the initial investment?

Ananda Mukerji

Yes, that is right. We expect attrition rates to come down. A couple of factors will help that happen i) As one grows and gets a larger footprint, attrition rates tend to come down and moderate and ii) As the industry, which is probably about 5 or 6 years old, starts to mature, the attrition rates will start to stabilize as well.

Joseph Foresi

Okay, and my second question and last question is around what do you see for the future, you know as you see the model sort of moving forward, are you planning or doing all types of BPO type work or you are going to try and follow the sun model where you are servicing a bunch of different geographies or I guess what are the plans for the business centered in the next couple of years, and thanks for taking my questions.

Ananda Mukerji

Within specific areas in our three focus verticals our goal is to get as wide a range of the customers processing business as we can. For example, in BFSI, we focus our attention in banking, which accounts for most of our BFSI revenues. Our attempt is to get as much of the value chain of the customer as we can. We look at the processes that the customers are currently outsourcing or will potentially outsource and developing capabilities around those processes. So yes, our intention and what we have done over the years is to have a broad range of service capabilities and to constantly try to add to those service capabilities. We have significantly expanded our service capabilities either by acquisitions or by organic means. For example, In December 2006 we acquired a company called Business Process Management. This company focuses on claims adjudication and does a whole range of high end complex adjudication work with expertise across 40 different business systems. This coupled with our ability in mail room and claim processing services really widens our capability and creates an end-to-end proposition for this industry. We believe that some processes are better delivered onshore and some processes are better delivered offshore. Within the offshore there would be nuances between geographies and to the extent that our clients need we intend to have a capability across the globe.

Joseph Foresi

Great, thanks.

Prashant Premkumar (Artha Capital Management)

Congratulations on a great quarter and thank you for taking my question.

Ananda Mukerji

Thank you.

Prashant Premkumar

My first question is with the revenue guidance you put out, about 50% growth over the next 2 to 3 years, can you provide some details on where this growth is coming from with the regard to the geographies and the verticals, as well as how you are ramping up some of your customers with focus on sort of your relationship with Metavante and how that is tracking?

Ananda Mukerji

The 50% number we stated is the gross that we expect to get next year. I would like to clarify that out of the 50% growth, about 46%, would be pure organic and 4% would be the growth which would come as a result of the acquisition we did last year, the full effect of which did not come in the year. So in a sense the acquisition would contribute about 4% to our growth in the next year. We are looking at growing all our verticals and geographies. We have recently entered the Indian domestic market, and we see that as a very attractive opportunity and a market, which is currently not being serviced by top quality BPO service providers. We see strong growth coming from all verticals and geographies and are relatively agnostic to where the growth comes from

Prashant Premkumar

The new win in the domestic market is in which vertical?

Ananda Mukerji

This is in the Telecom vertical in India, however we have presence in all three verticals - Telecom, Banking, and Insurance, in India and we see this probably contributing about 10% of our revenues next year. Telecom has been a strong area of growth for us in the last year and some of the growth momentum continues into this year. On the BFSI side we see the partnership with Metavante starting to bear fruit. We have three customers from the Metavante relationship, which are still at a small base; however we expect that to grow over the next couple of years. On the healthcare side with the BPM acquisition our proposition to the market is deeper than what it was a year back and that is going to help us win more business both onshore and offshore. We have a very strong

customer base including the two top healthcare companies in the US. We really see strong growth over the next 2 to 3 years.

Prashant Premkumar

With respect to the US and the mortgage industry in particular do you have a lot of exposure there?

Ananda Mukerji

No we do not have exposure to the US mortgage industry, we do work for the UK mortgage industry, and our exposure in the banking space in the US is on banking and credit cards.

Prashant Premkumar

Okay, my second question is with regard to your margin guidance of 11% - 13%, you also mentioned that you know your business is very seasonal, with third and fourth quarters being much stronger. To that extent, what sort of growth do you see quarter-on-quarter into the first quarter, given that it is going to be sort of and I do not want a number, but it is going to be lower than sort of prior quarters, and what that means for your margin given that you have hired a lot in fourth quarter, so how does that 11% to 13% pan out in terms of quarterly margins?

Ananda Mukerji

We are not giving guidance on margins either on an annual basis or on a quarterly basis. We are going to be in a high growth mode in the next 2 to 3 years, during which we expect our margins to be in the 11% to 13% range . On a quarter-on-quarter basis we do see fluctuations due to the high growth and due to seasonality in some parts of our business, which causes Q4 margins to be higher than both Q3 and Q1. Hence we do not want to give guidance on where the next quarter would be.

Prashant Premkumar

Sure, but what were some of the leverage that could help off set sort of the cost pressures?

Ananda Mukerji

Cost pressures are on account of three factors i) Seasonality of our the business ii) Cost increases which in this industry takes place in the beginning of the year and iii) Cost of growth i.e. cost of ramp-ups. We do try and achieve productivity improvements and looks at other means to reduce costs, however we are not trying to manage our numbers on a quarter-on-quarter basis. We are looking at ensuring that the kind of growth and profitability levels we are targeting are maintained on an annual basis.

Prashant Premkumar

Fair enough, thank you.

Ananda Mukerji

Thank you.

International Moderator

At this time there are no further questions from participants at WebEx International center. I would like to hand over the proceedings back to Rita.

Moderator

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

Manish (Deutsche Bank)

Hi, hello.

Ananda Mukerji

Hi

Manish

Yeah, one clarification I required, is the sudden increase in the manpower cost in Q1 or rather Q4, attributable only to the Hutch ramp-up or also high cost resources from BPM acquisition where it is taken, is it attributable to that as well?

Ananda Mukerji

It is largely Hutch, but there is obviously normal secular growth in the other businesses as well as growth in BPM

Manish

Last year in the pre IPO analyst meet you had mentioned that due to ramp-up in a few clients, the EBITDA margins were hit and those being the initial phase of client ramp up. Now again in Q4 we see Hutch is being ramped up and the margins have been affected to some extent. Now what do you see and when do you see that this will stabilize because every time in a quarter-on-quarter and year-on-year basis every time we see a client ramp-up there will be some hit in the margins, when will you see us gain that size or scale when such odd client ramp-ups here and there wouldn't really effect your margins, and do you see continuing effects of these ramp-ups over the next couple of years?

Ananda Mukerji

To put your question in context, during the pre-road show, what I referred to was the drop in margins in the first quarter of fiscal 2006. I was commenting on the variation in margins that we have seen over the years and the fact that the 2006 margins declined in relation to 2005, which was because of an unexpectedly large ramp-up in the first quarter of fiscal 2006. This ramp in the first quarter of 2006 resulted in negative net margins for the quarter; we recovered subsequently however the impact was felt on the numbers for the whole year. At the moment we are not talking about a ramp of that order or magnitude. If you look at our Q4 numbers, margins have actually

gone up in spite of a ramp-up of 3500 employees . As I have mentioned earlier part of the impact of this ramp has been in Q4 and part of the impact will come in Q1. You will see similar variations in a quarter-on-quarter in our numbers, I would call them perturbations in the quarter-on-quarter numbers, these perturbations are not something that will change the overall secular numbers. In the first quarter of fiscal 2006 the size of our business was such that our ability to do a 40% wage ramp-up caused a very large perturbation at that point of time. At our current levels, obviously those perturbations get dampened to a much larger extent. But there will be perturbations when there is a large growth in relation to your base, which will cause short term impact on quarterly margins. These perturbations are there in our business and will probably continue until we are so big that a ramp-up of 4000 to 5000 people has no impact. However I would suspect that even for a 20,000 to 30,000 people company, a 4000 people ramp-up will have some impact.

Manish

Okay, and one last question, during your client engagement/interaction, do you see any kind of a preference towards the initial move towards the near source center and then a gradual move towards the offshore center, and is this a kind of proposition you are putting forward to your clients given that you have significant near shore capacity now? Thank you.

Ananda Mukerji

There definitely are client processes which are better outsourced initially to an onshore location and then subsequently to an offshore location. Over the last 12 to 18 months we have focused on providing our clients with this capability. This proposition is very much a part of what our customers are looking for and in the ability to offer that or have enough capabilities to offer the same, we believe, would segregate one firm from the other in the market.

Manish

Thank you, I really appreciate.

Kunal Sangoi (Edelweiss)

Hi, congratulations to management on a great set of numbers. Actually, I have a few questions, but may be I will just limit it to two if possible. You have actually mentioned collections as being a

pretty significant part of your business where you have defined fairly good strength in that particular aspect. Can you just give us a little more detail as to why you say that and how significant is it really?

Ananda Mukerji

Collections is a significant part of our business, we believe that it is a very attractive market segment to be in for a couple of reasons; i) it is traditionally a business that is outsourced to specialist and we are one of the specialists who operate in the collections marketplace. ii) The pricing for the business, particularly for a collections entity, which is in late stage collections is contingency based, that means one's revenues and profits are based on one's performance, which is a model we like our business to be in i.e. output based rather than input based. Collections is a very large market opportunity in the US, we are also seeing very good opportunities in the UK as well as India market. The collections industry in the US is fairly mature and we are now leveraging our capabilities in other markets. We now have collections customers in the UK as well as in India. Collections is a very attractive market opportunity and is a very large part of the BPO potential market.

Kunal Sangoi

Fine, thanks, I also heard with interest in your afternoon call that you talked a little bit about output based pricing and you said that is increasingly forming a larger proportion of your revenues, if I have understand rightly output pricing is completely divorced from per hour kind of a billing, is that some way you are keeping the pricing or your average pricing intact?

Ananda Mukerji

Yeah that is right; if the pricing model is per hour, per FTE or per seat, we call it an input based pricing. If it is linked to output, some form of transaction pricing or contingent pricing, then it is an output based model. So clearly there are certain kinds of businesses which are more amenable to output based pricing and certain parts of business which are not, for example one would not attempt to do output based pricing on a process where one does not have control over the volumes.

Within the business model, our aim is to try to move as much as possible to the output based pricing model. Over the last quarter and in fact, since pre-IPO, we have been successful in increasing output based revenues. However this is not something which we can say is going to be a steady trend as all parts of our business are increasing and it is not that we will not do input based pricing. Hence the mix between input based vs. output based will change a little bit over time.

Kunal Sangoi

Okay, fine, I would just like to get a sense of your new investment areas and possibilities, capabilities, that you need to build out further over a slightly longer time frame may be 2 to 3 years?

Ananda Mukerji

As I mentioned in a response to an earlier question, we are looking at widening our service proposition to our customers and therefore wherever we find that there is a customer need for which there is a service capability gap, that is where we look at investing. We do want to move to more of platform-based offerings as we can, which will be an important part of our proposition. The partnership with Metavante clearly gives us an access to platforms around which to build our service offering. Directionally I would say in the medium to long term this industry will evolve to services which are delivered more and more around platforms, which is the direction in which we would like to expand.

Kunal Sangoi

Fine, got it. Just one last question please, I mean you are increasing your focus on Indian market; you have a great win Hutch. Is Indian market as profitable as rest of your business as well?

Ananda Mukerji

It is actually contrary to popular perception, at least as profitable, if not more profitable, than other business. So while the price points are different, it depends on the kind of business you choose

and the customers you work for. There are a lot of low value, non-value conscious customers or customers who are not quality conscious, where you will not make margins, however we are not into those kinds of businesses. The kind of business we are in, the margins are as good, if not better.

Kunal Sangoi

And this on a net basis, right?

Ananda Mukerji

Yes, this is on the net basis.

Kunal Sangoi

Alright, thanks so much, a great quarter, and all the best ahead.

Ananda Mukerji

Thank you very much.

Kunal Sangoi

Hi, What is the extent of natural hedge you would have against the appreciating rupee, I mean I would understand that the exposure to UK is a plus, in the sense that you almost have an equal exposure to UK as you have to the US, but would it be fair to assume that given that significant proportion of the BPO industry is offshore, the kind of natural hedge will be somewhat limited relative to an IT services play?

Ananda Mukerji

In general what you are saying would probably be true, but in our case because we have quite a bit of onshore delivery, we also have a part of our cost base in the US, so that does get limited to some extent.

Kunal Sangoi

Okay, and you have done some sensitivity analysis that tells you that one percentage appreciation rupee would have so and so basis points impacting EBITDA, some sort of a rough analysis there?

Ananda Mukerji

I think the answer is that a one rupee change in the rupee-dollar rate, and not a 1%, but a one rupee, impacts our profit by 0.3%.

Kunal Sangoi

At the EBITDA level?

Ananda Mukerji

At the net income level.

Kunal Sangoi

Net income level, okay, and your guidance has taken into account some reasonable scenarios of the rupee strengthening from here, because you have given a rupee guidance of 50% growth.

Ananda Mukerji

That is right, and based on what level of cover we have and what we see and the natural hedges we have, we are confident of the rupee number.

Kunal Sangoi

Okay, thank you so much.

Ananda Mukerji

Thank you.

Kunal Sangoi

Bye.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
