

Firstsource Solutions Limited

Q1 FY2012 Earnings Update



Disclaimer

Certain statements in this presentation concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in BPO services including those factors which may affect our cost advantage, wage increases, our ability to attract and retain highly skilled professional, time and cost overruns on client contracts, client concentration, our ability to manage ramp-ups and growth, our ability to manage our international operations, reduced demand in our key focus verticals, disruptions in telecom infrastructure and technology, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, performance of our subsidiaries, withdrawal of government fiscal incentives, political instability, legal restrictions on raising capital and acquiring companies outside India, unauthorized use of our intellectual property and general economic conditions affecting our industry. Firstsource may, from time to time, make additional written and oral forward-looking statements, including our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company.

Agenda



Q1 FY2012 Highlights



Financial Performance – Q1 FY12



Business Outlook



Q1 FY2012 Highlights (1/5)

Q1 FY2012 Performance Analysis

■ Operating Revenue

- Q1 Revenues at Rs 5,231 million
- Y-o-Y growth of 6.6% in INR terms and 7.3% in constant currency terms
- Q-o-Q decline of 4.3% in INR terms and 4.8% in constant currency terms; largely on account of
 - More pronounced BFSI collections volume fall than usual seasonal weakness
 - Impact on account of T&M client ramp down and softness in business volumes



■ Operating EBIT

- Q1 FY12 operating EBIT margins at 4.0%, lower by 620 bps compared to Q4FY11; largely on account of
 - Lower than expected revenue momentum
 - Expect momentum to pick up in H2 on the back of strong pipeline
 - Cost of growth in Asia Business Unit
 - Capacity consolidation initiative has resulted in parallel capacity and higher costs in the interim
 - Capacity consolidation to be financially beneficial H2 onwards

Q1 FY2012 Highlights (2/5)

Debt Refinancing

- **Raised \$180 million term loan from the international loan syndication market**
 - The Company's United States subsidiary has raised \$180 million from a consortium of six financial institutions
 - The lenders include overseas branches of Axis Bank, Canara Bank, ICICI Bank and Indian Overseas Bank along with GE Capital, USA and DBS Bank
 - Key terms
 - The interest rate of the new term loan is lower than the current interest rate on existing loans and the yield on the FCCB
 - Interest will be paid quarterly, while principal repayment on this new facility will commence in June 2013 with final maturity in March 2017
- **Rationale and use of proceeds**
 - The company has refinanced \$64 million of ECB and term loans using proceeds from this new facility
 - The company has taken advantage of lower interest rates and further spread its debt maturity profile
 - Proactively addresses part of redemption gap for FCCB ahead of term
 - The remaining proceeds, net of expenses, will be used towards the company's FCCB redemption in December 2012



Cash Position

- **Cash balance of \$87 million as on June 30, 2011 compared to \$103 million as of March 31, 2011**
 - Repaid \$10 million of post shipment credit facility during the quarter
- **Cash balance is in excess of \$200 million as on date including the proceeds from debt refinancing**



Q1 FY2012 Highlights (3/5)



Clients

- **Signed a joint venture partnership with Dialog Axiata Plc in Sri Lanka**
 - Firstsource-Dialog Solutions (FDS) will target local Sri Lankan market . Firstsource owns 74% in FDS
- **Stable relationships and good growth prospects with existing clients**



Employee Strength

- **29,664 employees as on June 30, 2011**
 - 22,482 employees based in India and 7,182 employees based outside of India
 - Net addition of 3,251 employees in Q1 FY12 compared to net reduction of 255 employees in Q4 FY11 and net reduction of 163 in Q1 FY11



Attrition

- **Offshore (India and Philippines)** – 58.7% compared to 65.9 % in Q4 FY11
- **Onshore (US and UK)** – 32.8% compared to 33.6 % in Q4 FY11
- **Domestic (India and Sri Lanka)** – 81.6% compared to 91.2 % in Q4 FY11

Q1 FY2012 Highlights (4/5)



Seat Capacity And Utilization

- **Seat capacity of 23,342 seats worldwide**
 - Added 661 seats during the quarter
 - 43 delivery centers as on June 30, 2011, compared to 42 as on March 31, 2011
 - Addition of one center in Sri Lanka
 - Seat fill factor at 74% as on June 30, 2011, compared to 71% as on March 31, 2011
 - Average seat fill factor for Q1 FY12 at 72%
- **Capacity consolidation initiative in India underway**
 - Parallel capacity in the system. Expect capacity to normalize by FY12 exit



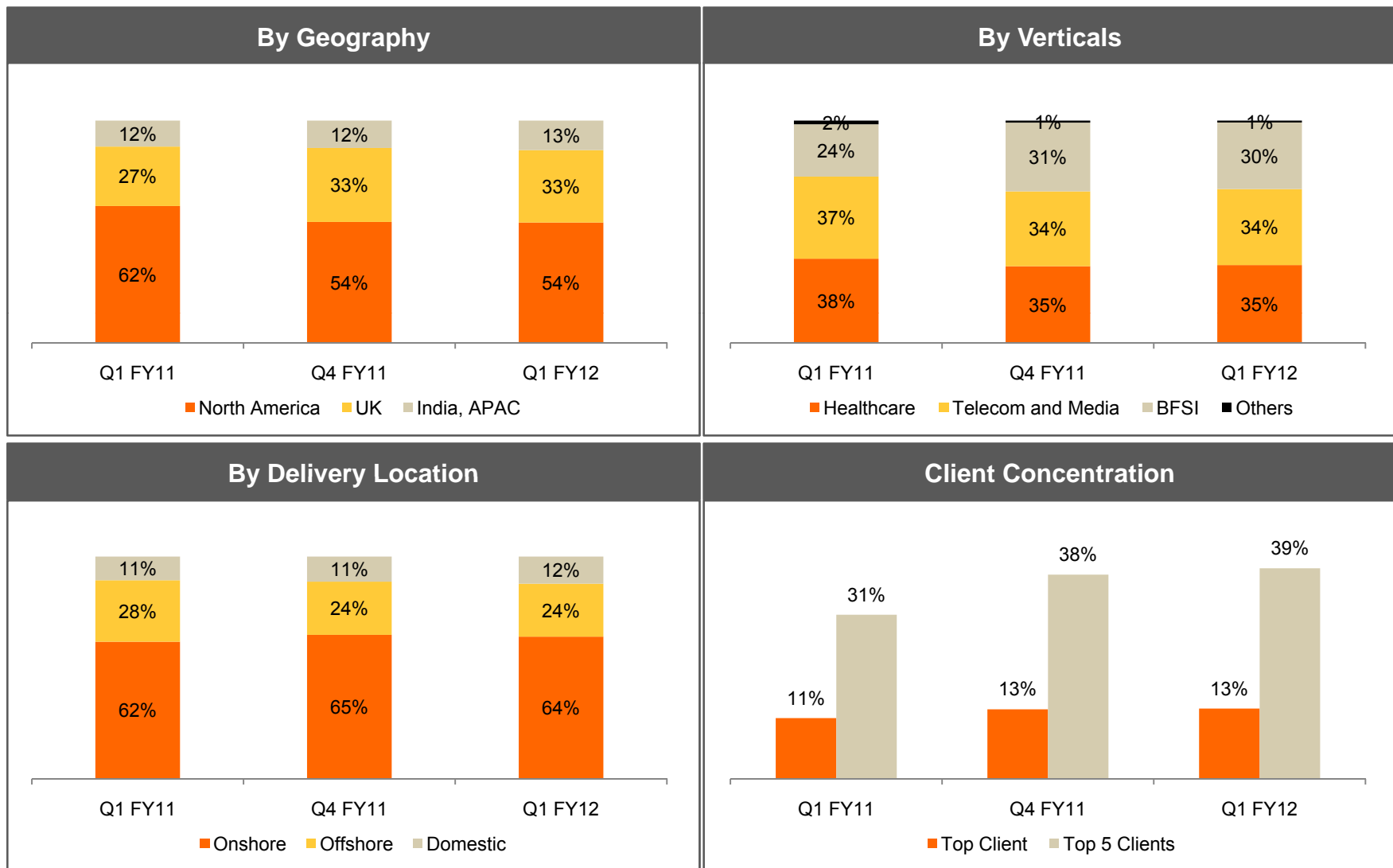
Foreign Exchange Hedges

- **Outstanding FX hedges at \$19.5 million and £34 million for USD and GBP respectively**
 - **FY12:** 72% USD coverage at Rs. 47.5 levels and 100% GBP coverage at Rs. 75 levels
 - **Q1 FY13 :** 27% USD coverage at Rs. 48 levels and 76% GBP coverage at Rs 78 levels

Executive Appointment

Appointed Rajesh Subramaniam as Deputy Managing Director and Chief Financial Officer (CFO) at Firstsource w.e.f. August 1, 2011

Q1 FY2012 Highlights (5/5)



Agenda

 Q1 FY2012 Highlights

 **Financial Performance – Q1 FY12**

 Business Outlook



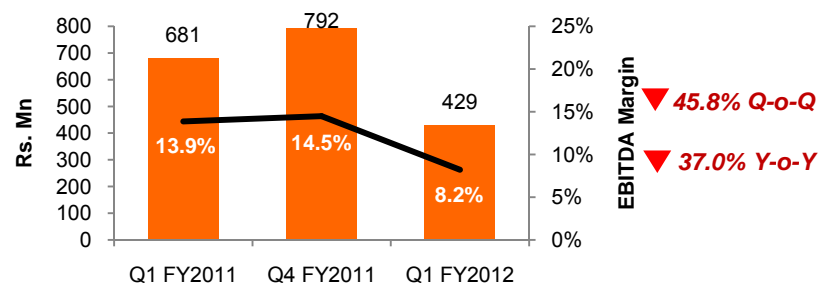
Financial Performance – Q1 FY2012

(IN INR Million)	Q1 FY 2011	Q4 FY 2011	Q1 FY 2012
Income from services	4,759	5,403	5,189
Other operating Income	148	61	42
Revenue from operations	4,907	5,464	5,231
Personnel and Operating Expense	4,226	4,673	4,802
Operating EBITDA	681	792	429
Operating EBITDA %	13.9%	14.5%	8.2%
Depreciation / amortization	213	233	220
Operating EBIT	468	558	209
Operating EBIT %	9.5%	10.2%	4.0%
Other Income / (expense)	24	5	15
Interest Income / (expense), net	(57)	(43)	(34)
Amortized (cost) on fair value of FCCB	(30)	(35)	(35)
Exchange gain / (loss) on Foreign currency loan	3	5	(1)
PBT	407	490	154
PBT (% of total income)	8.2%	9.0%	2.9%
Taxes and Minority Interest	86	107	47
PAT	321	383	106
PAT (% of total income)	6.5%	7.0%	2.0%
Reported Basic EPS (INR)	0.75	0.89	0.25
Reported Diluted EPS (INR)	0.68	0.80	0.25

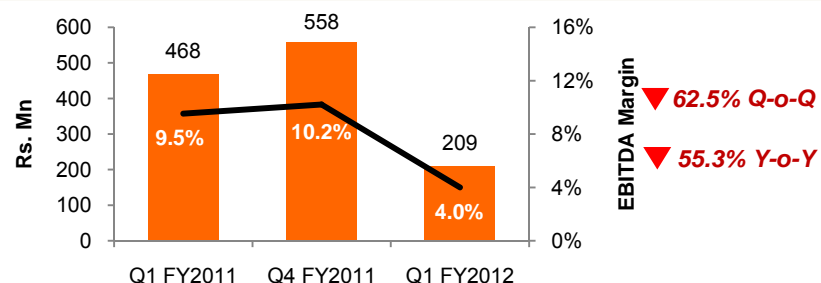
Revenue From Operations



Operating EBITDA



Operating EBIT



Agenda






 Q1 FY2012 Highlights

 Financial Performance – Q1 FY12



 **Business Outlook**



Healthcare

Headed By	Key Segments	Geography	Revenue	Capacity and Utilization
 <p>Tom Watters President, Healthcare/ CEO, North America</p>	Payer 	Delivery 	35% Income from services (Q1 FY12)	3,221 seats As on June 30, 2011
	Provider 	Market 	Employees 3,205 As on June 30, 2011	73% Seat fill factor

Q1 FY12 Highlights	Industry Trends	Business Outlook
<ul style="list-style-type: none"> Continued execution of Provider Sales strategy, with traction gaining on core products and services Payer sales segment remains strong with new logos being signed, as well as a deeper penetration into existing client base being realized Technology enhancements being implemented in support of Centers of Excellence initiatives 	<ul style="list-style-type: none"> Congressional lawmakers continue their focus on the entitlement programs, Medicare and Medicaid U.S. unemployment rose to 9.2% for the second consecutive month Provider sector continues to focus on returning to pre-recession profitability with increased M&A activity expected Payer segment remains concentrated on administrative cost reductions and implementation of Health Information Exchanges (HIE) 	<ul style="list-style-type: none"> Insurers continue strong focus on achieving compliance with Medical Loss Ratio (MLR) mandates and building capacity for significant enrollment increases Hospitals looking beyond traditional back office structures to address reimbursement pressure and increases in uninsured population Expect stable growth with consistent financial performance

Headed By	Key Segments	Geography	Revenue	Capacity & Utilization
 <p>Sanjeev Sinha EVP – BFSI</p>	Credit Cards 	Delivery 	30% Income from services (Q1 FY12)	4,396 Seats As on June 30, 2011
	Mortgage 		General and Life Insurance 	Employees
		Market 	5.150 As on June 30, 2011	

Q1 FY12 Highlights	Industry Trends	Business Outlook
<ul style="list-style-type: none"> Our Manila center continues to grow as more work from an existing client is migrated successfully Introduction to new segments and increased market share from existing collections clients on back of strong operational performance However, significant drop in overall collections volumes has negatively impacted financial performance Continued strong SLA performance across all business units of the vertical India delivery has seen some pressures on profitability. 	<ul style="list-style-type: none"> The UK financial services community are coming under increasing pressure from regulatory reform and closer scrutiny Late 2010 and first half of 2011 have seen UK mortgages drop. Approved mortgages have dropped by 6% in April 2011 (y-o-y) Delinquency rate for cards is the lowest in recent history Credit card charge offs also fell in the first quarter of 2011 to a rate of 7.22 percent, down from 7.80 percent in the previous quarter. 	<ul style="list-style-type: none"> Pressure from regulators has resulted in new opportunities around the complaints process and compliance in general Increased interest and traction in onshore CRM opportunities Commission rates are expected to continue on a downward trend Liquidation rates will continue on their current trajectory and grow at a moderate pace Pipeline continues to be healthy.

Telecommunications and Media

Headed By	Key Segments		Geography	Revenue	Capacity & Utilization
 <p>Santanu Nandi EVP – Telecommunications and Media</p>	Cable & Satellite Television 	Broadband / Narrowband 	Delivery 	23% Income from services (Q1 FY12)	5,156 Seats As on June 30, 2011
	Wireless & Mobile 	Fixed Line 	Market 	6,120 Employees As on June 30, 2011	66% Seat fill factor

Q1 FY12 Highlights	Industry Trends	Business Outlook
<ul style="list-style-type: none"> Overall softness in volume combined with ramp down in an existing wireless client impacted the top line Won additional business from two clients Successful in redeploying the existing employees from the ramped down client into new wins Capacity consolidation initiative has resulted in parallel capacity and higher costs in the interim Strong pipeline development across all markets. Strengthened the sales team in the UK and the US 	<ul style="list-style-type: none"> Overall UK ISP market is experiencing slower growth Decision cycles among the clients are longer than expected Industry is driven by technology led innovation like connected homes, touchless payment technology, etc. Consolidation among the top Telecom players in the industry across the geographies Web chat emerging as a major channel for both sales and service 	<ul style="list-style-type: none"> Our volumes in the ISP segment will remain soft in the near future Sharpening competitive advantage through differentiated offering is the focus area Excess capacity and cost of growth of new wins may impact bottom line in the short run Emerging opportunity in the premium technical support area Strong growth prospects with existing clients in web chat service line The new wins and some of the pipeline business expected to yield revenues from H2

Asia Business Unit (ABU)

Headed By	Key Segments	Geography	Revenue	Capacity and Utilization
 <p>Sanjay Venkataraman EVP, Asia BU</p>	Telecom and Media 	Delivery  	12% Income from services (Q1 FY12)	10,275 seats As on June 30, 2011
	BFSI 	Market  	14,832 As on June 30, 2011	79% Seat fill factor

Q1 FY12 Highlights	Industry Trends	Business Outlook
<ul style="list-style-type: none"> Entered Sri Lanka through a Joint Venture with Dialog Axiata, to address opportunities in Sri Lanka Strong growth seen from existing telecom customers : significant ramps undertaken in Q1, impacting profitability Increased footprint with existing customers, through addition of new lines of business / geographies Strong focus on operational improvements. 	<ul style="list-style-type: none"> Rural BPO expected to be the next inflection point in the domestic market 'Do Not Call' registry expected to be in place from August 2011 MNP elicits modest response IT-BPO market in India expected to grow by 17% in 2012 Next wave of growth in Telecom expected through 3G and VAS Flurry of activity in the Govt/PSU segment in India. 	<ul style="list-style-type: none"> Strong volumes seen from existing customers : Ramps undertaken in Q1 will translate into revenue and improved profitability in Q2 Q2 will have full quarter impact of Firstsource Dialog Solutions (Joint Venture in Sri Lanka) deal Pursuing opportunities in the Middle East Continued focus on operational efficiencies.

Business Outlook

- **Revenue momentum to improve in H2**
- **Gradual improvement in margins expected from Q1**
 - **Expected changes over next few quarters include**
 - Completion of large scale ramps in ABU
 - Conversion of strong pipeline and commencement of revenues from new wins and ramps in T&M
 - Completion of capacity consolidation initiatives
 - Even stronger focus on operational efficiencies and cost rationalization
 - **However, we do encounter few industry specific uncertainties and headwinds**
 - Declining volumes in BFSI Collections segment
 - Prolonged decision making cycles
 - **Overall, with revenues expected to grow over the next few quarters, margins will improve from Q1 level**
- **Moving into Q2 FY11**
 - Expect flattish revenues and margin improvement



THANK YOU

Firstsource (NSE: FSL, BSE: 532809, Reuters: FISO.BO, Bloomberg: FSOL@IN) is a global provider of customised BPO (business process outsourcing) services to the Banking and Financial Services, Telecom and Media and Healthcare sectors. Its clients include FTSE 100, Fortune 500 and Nifty 50 companies. Firstsource has a “rightshore” delivery model with operations in India, US, UK, Philippines and Sri Lanka. (www.firstsource.com)

