

# **Firstsource Solutions Limited**

**Q2 FY 2008-09 Earnings Update**





**firstsource**

## **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

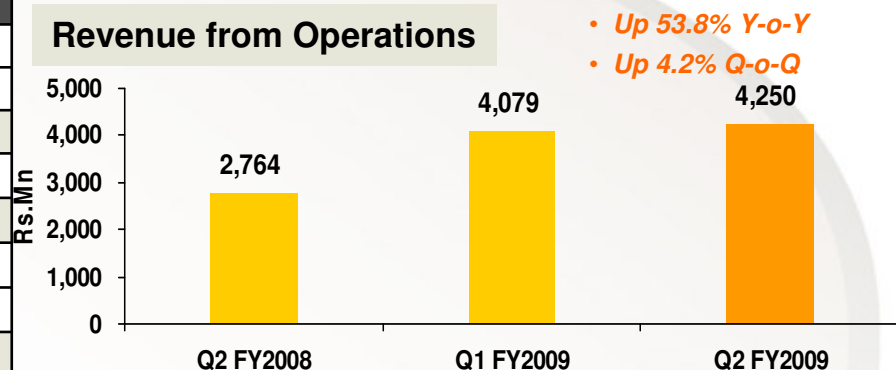
- *Financial Performance – Q2 FY2009*
- **Business Outlook**



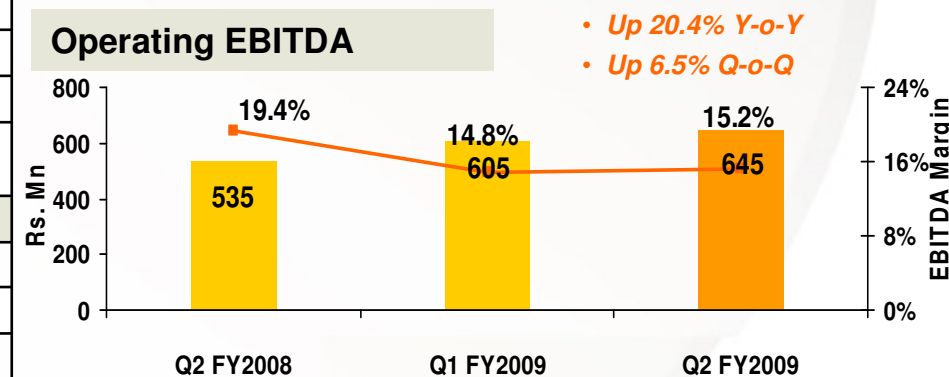
## Financial Performance – Q2 FY2009

(IN INR Million)	Q2 FY 2008	Q1 FY 2009	Q2 FY 2009
Income from services	2,588	4,016	4,290
Other operating Income	176	63	(40)
<b>Revenue from operations</b>	<b>2,764</b>	<b>4,079</b>	<b>4,250</b>
Personnel & Operating Exps	2,228	3,474	3,605
<b>Operating EBITDA</b>	<b>535</b>	<b>605</b>	<b>645</b>
<b>Operating EBITDA %</b>	<b>19.4%</b>	<b>14.8%</b>	<b>15.2%</b>
Depreciation / amortization	214	223	212
<b>Operating EBIT</b>	<b>321</b>	<b>382</b>	<b>433</b>
<b>Operating EBIT %</b>	<b>11.6%</b>	<b>9.4%</b>	<b>10.2%</b>
Other Income / (expense)	172	17	(45)
Interest expense/ (Income), net	24	23	5
Loss/(gain) due to exchange variation and amortized cost on fair value of FCCB	-	802	28
<b>PBT</b>	<b>469</b>	<b>(426)</b>	<b>355</b>
<b>PBT (% of total income)</b>	<b>15.8%</b>	<b>- 10.4%</b>	<b>8.4%</b>
Taxes	15	74	73
Minority Interest	(1)	0	(1)
<b>PAT</b>	<b>456</b>	<b>(501)</b>	<b>283</b>
<b>PAT (% of total income)</b>	<b>15.4%</b>	<b>-12.2%</b>	<b>6.7%</b>
PAT excl Fx var. and amortization on FCCB	456	301	311
<b>Adjusted PAT (% of total income)</b>	<b>15.4%</b>	<b>7.4%</b>	<b>7.4%</b>
Reported Diluted EPS (Rs.)	1.02	(1.17)	0.52
<b>Adjusted Diluted EPS (Rs.) – Without Fx var. and amortization on FCCB</b>	<b>1.02</b>	<b>0.55</b>	<b>0.57</b>

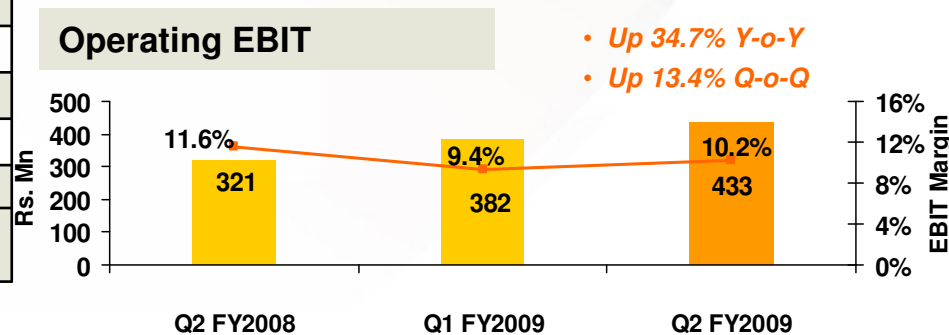
### Revenue from Operations



### Operating EBITDA

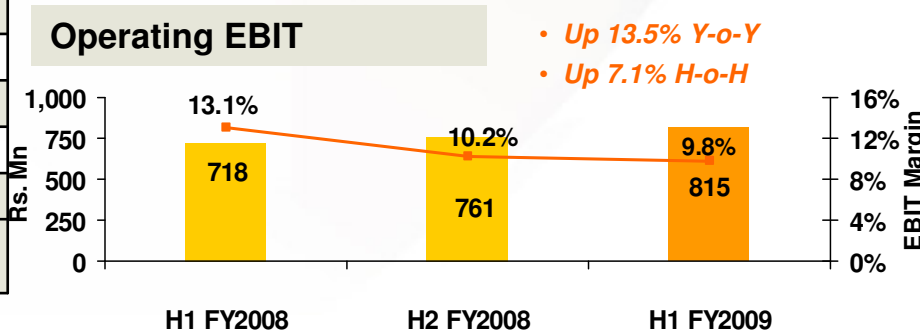
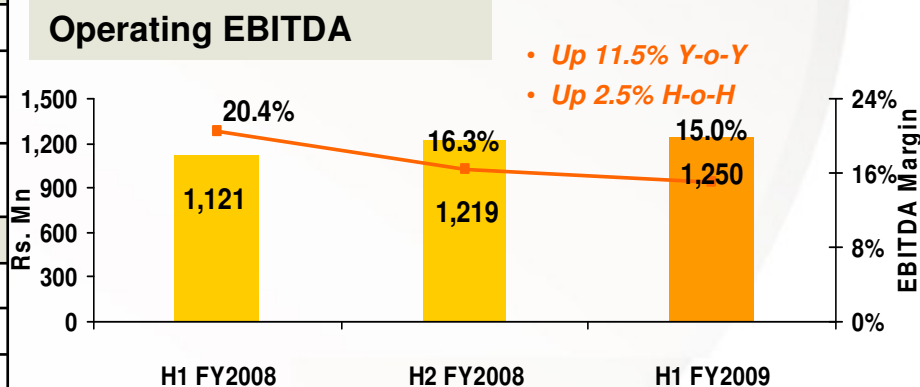
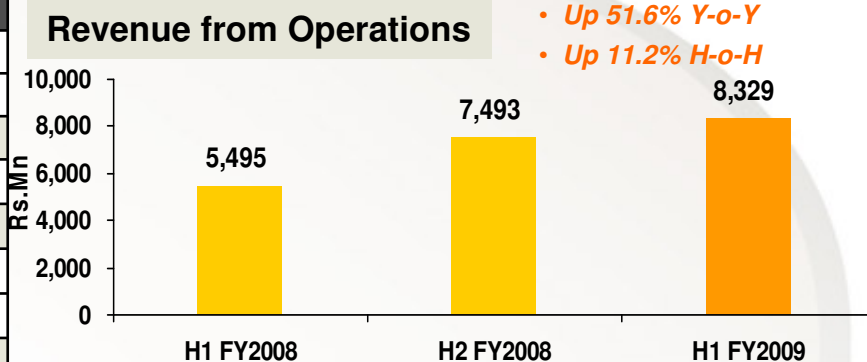


### Operating EBIT



## Financial Performance – H1 FY2009

(IN INR Million)	H1 FY 2008	H2 FY 2008	H1 FY 2009
Income from services	5,125	7,282	8,306
Other operating Income	370	211	23
<b>Revenue from operations</b>	<b>5,495</b>	<b>7,493</b>	<b>8,329</b>
Personnel & Operating Exps	4,374	6,274	7,079
<b>Operating EBITDA</b>	<b>1,121</b>	<b>1,219</b>	<b>1,250</b>
<b>Operating EBITDA %</b>	<b>20.4%</b>	<b>16.3%</b>	<b>15.0%</b>
Depreciation / amortization	403	458	435
<b>Operating EBIT</b>	<b>718</b>	<b>761</b>	<b>815</b>
<b>Operating EBIT %</b>	<b>13.1%</b>	<b>10.2%</b>	<b>9.8%</b>
Other Income / (expense)	218	101	(29)
Interest expense/ (Income), net	(37)	211	28
Loss/(gain) due to exchange variation and amortized cost on fair value of FCCB	-	193	830
<b>PBT</b>	<b>973</b>	<b>458</b>	<b>(72)</b>
<b>PBT (% of total income)</b>	<b>17.0%</b>	<b>6.1%</b>	<b>-0.9%</b>
Taxes	76	50	147
Minority Interest	(2)	(8)	(1)
<b>PAT</b>	<b>899</b>	<b>417</b>	<b>(218)</b>
<b>PAT (% of total income)</b>	<b>15.7%</b>	<b>5.6%</b>	<b>-2.6%</b>
PAT excl Fx var. and amortization on FCCB	899	609	612
<b>Adjusted PAT (% of total income)</b>	<b>15.7%</b>	<b>8.1%</b>	<b>7.4%</b>
Reported Diluted EPS (Rs.)	2.02	0.81	(0.51)
Adjusted Diluted EPS (Rs.) – Without Fx var. and amortization on FCCB	2.02	1.22	1.12



## **Q2 FY2009 Highlights (1 of 4)**

### **Q2 FY2009 Performance Analysis**

- **Operating Revenue growth**

- Q-o-Q growth of 4.2% in INR terms and 1.3% in USD terms (excluding cross currency movement USD terms growth will be 3.0%)
- Positive growth drivers
  - Favorable currency partly compensated by lower covered rates
  - Ramp up from clients in the telecom sector including Domestic
- Negatives
  - Sluggishness in collections business

- **Operating EBIT Margins**

- Q2 FY2009 Operating EBIT margin at 10.2% compared to 9.4% in Q1 FY2009, higher by 80 bps
- Positive impact due to
  - Improved margins due to productivity improvements
  - SG&A leverage and lower depreciation

Negative factors were

- Cost of growth and volume fluctuations in domestic business
- Lower margins in Collections
- Forex loss on receivables due to covered rates lower than accounted rates

## **Q2 FY2009 Highlights (2 of 4)**

- **FCCB Accounting**

- AS 30 “Financial Instruments: Recognition and Measurement” becomes recommendatory from April 1, 2009 and mandatory from April 1, 2011
- Early Adopted AS 30 on July 1, 2008 w.e.f. April 1, 2008, in line with ICAI recommended best practice
- As the proceeds from the FCCB were used towards net investments in a non integral foreign operations (MedAssist), the company designated the FCCB as a hedging instrument w.e.f July 1, 2008
- Accordingly, the translation gain / loss on FCCB due to exchange variation is recognized in the translation reserve account in the balance sheet.
- The premium payable on redemption is now amortized over the period of the bond as against the earlier policy of charging the entire premium payable upfront

- **Foreign Exchange Hedges**

- Outstanding FX hedges at \$145 million as on September 30, 2008
  - 100% coverage FY09, 65% coverage FY10, 25% coverage FY11

## **Q2 FY2009 Highlights (3 of 4)**

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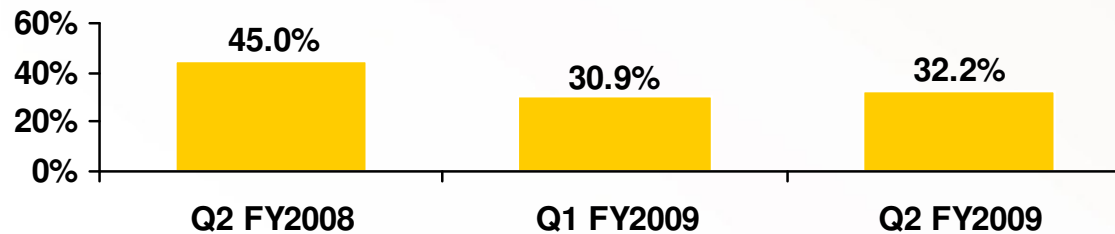
- **19,576 employees as on Sep 30, 2008**
  - Net addition of 1,223 employees in Q2 FY09 compared to net addition of 1,276 employees in Q2 FY08. Excluding MedAssist, Q2 FY08 net reductions were 230.
  - Net addition of 2,207 employees in H1 FY09 compared to net addition of 2,194 employees in H1 FY08. Excluding MedAssist, H1 FY08 net additions were 688.
- **Attrition**
  - Q2 annualized attrition (post 180 days) is at 45.4% compared to 38.7% last quarter (Q1 annualized)
  - Higher attrition in Q2 FY09 is largely on account of involuntary attrition due to ramp down of one program and movement of another program to a new delivery location.
    - Excluding the above, Q2 FY2009 attrition is at 39.8%
- **Seat capacity of 15,538 seats worldwide**
  - Seat fill factor at 75% for Q2 FY09 compared to 76% in Q1 FY09



## Q2 FY2009 Highlights (4 of 4)

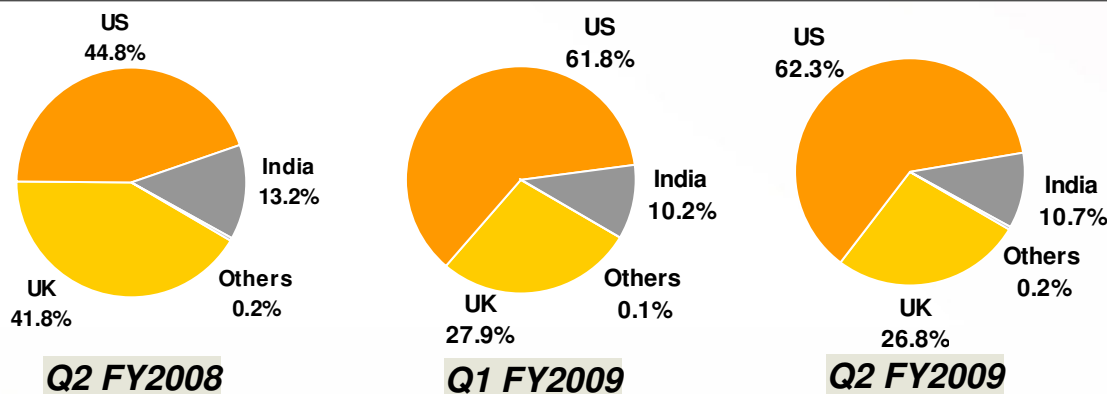
### Client concentration

#### Revenue from top five clients



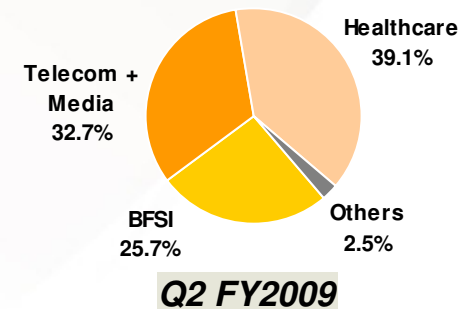
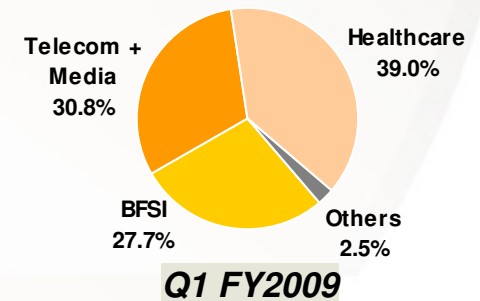
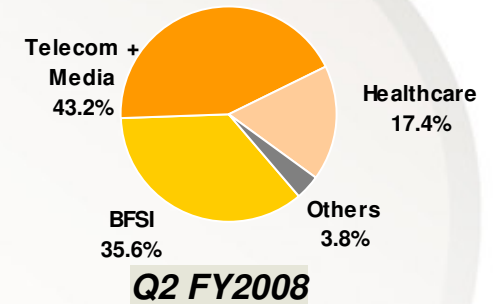
Note: Largest client contributed 10.0% of income from services in Q2 FY2009

### Revenues by geography



Note: Revenues considered above are Income from services

### Revenues by vertical



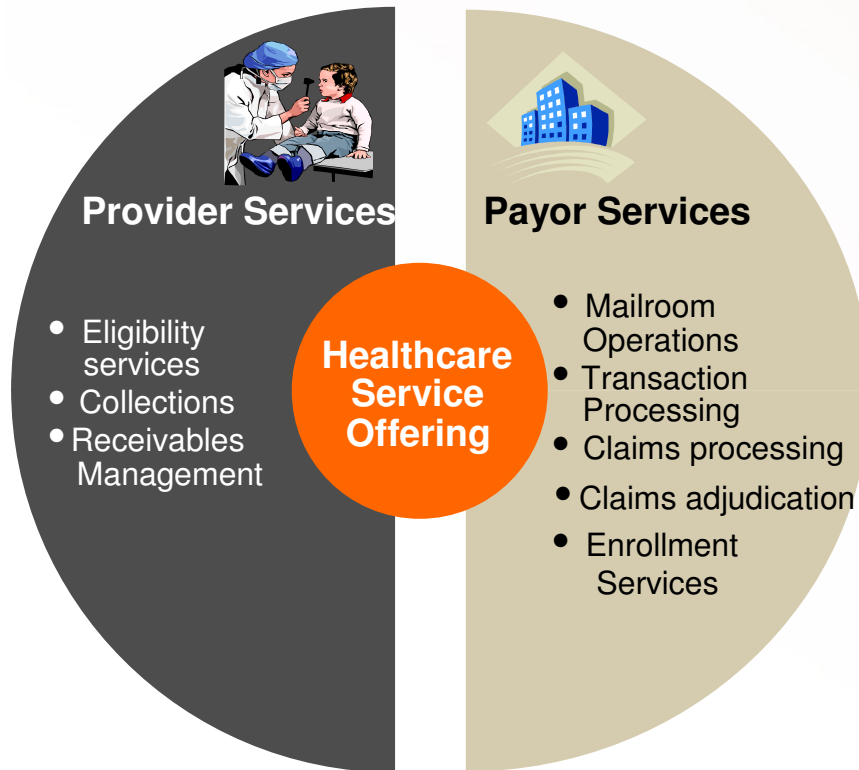
## Agenda

- Financial Performance – Q2 FY2009
- *Business Outlook*



# Healthcare – An Overview

## Broad Service Offerings and Segments



### Revenue contributed

39% of income from services (Q2 FY09)

### Q2 FY2009 Highlights

- Process ramp ups - 1, No process ramp downs in payor segment
- 17 net contract additions in provider segment
- MedAssist integration on track

### Current trend and outlook

- Business largely stable with little impact of economic slowdown
- Outlook is positive with large clients increasingly looking for cost savings and exploring offshore solutions.
- Provider business likely to see increased growth with cross selling

# Telecommunications & Media – An Overview

## Broad Service Offerings and Segments



### Revenue contributed

33% of income from services (Q2 FY09)

### Q2 FY2009 Highlights

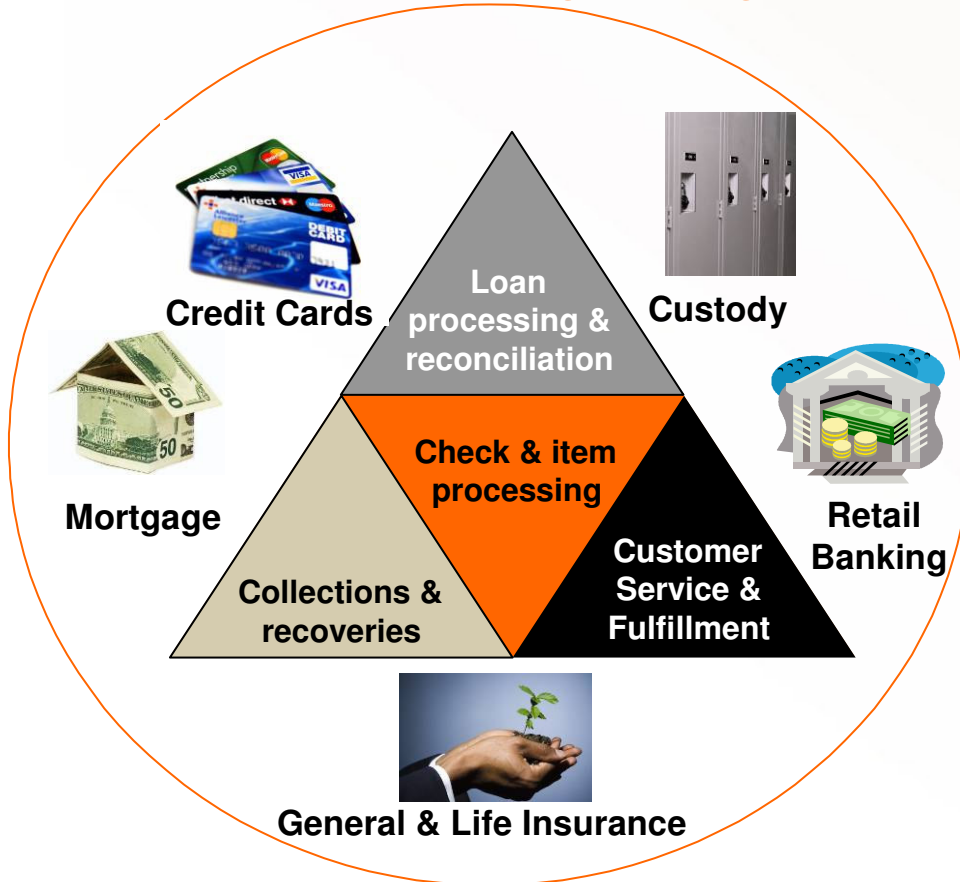
- New Deals - 2, Process Ramp ups – 3, No process ramp down
- New delivery center in Chennai with capacity of 500 seats commissioned
- Three new delivery centers to be commissioned in Q3 – Siliguri, Bhubaneswar and Jalandhar

### Current trend and outlook

- Domestic clients showing good growth momentum with new processes and businesses being added
- Volumes from international clients are stable to positive

# BFSI – An Overview

## Broad Service Offering and Segments



### Revenue contributed

26% of income from services (Q2 FY09)

### Q2 FY2009 Highlights

- **New Deals – 1, Process Ramp ups – 1, Process ramp downs - 2**
- **No exposure to investment banking, sub prime mortgage. Of 26% revenues from BFSI in Q2 FY09:**
  - 3% - Insurance (General and life insurance companies in UK and India, no US exposure),
  - 4% - Mortgage (Leading UK bank's prime portfolio, no sub prime exposure)
  - 19% - Banking (Including 11% US collections, remaining from retail banking across India, US and UK)
- **No change of control at any of the large existing clients**

### Current trend and outlook

- **BFSI Collections environment continues to be challenging**
- **Expect continued stress on liquidation rates and pressure on profitability, monitoring the situation closely**
- **Deal flow from BFSI sector is sluggish**

## Business Outlook

### Existing Business

- Volumes are linked with clients business cycles. Currently, a bit softer on origination side however stable on servicing
- Of our top 10 clients, 7 has grown in this fiscal.

### New Business

- Healthy pipeline. However delay in decision making process and deal closure.
- Healthcare – Pipeline growing in both payor and provider segment
- Telecoms – Continued traction in domestic and UK
- BFSI – Slow movement in pipeline

### Currency Exposure

- Being significantly hedged for FY2009 in the beginning of the year, strengthening USD doesn't provide a significant upside for the current year.
- Weakness in GBP and INR to have cross currency impact

### FY2009 Guidance

- Revising revenue guidance to 21% in USD terms (32% in INR terms) from original guidance of 33-38% in USD terms.
  - Above guidance factors 3% adverse impact on account of cross currency movement
- Operating EBIT margins for the full year in the range of 10-10.5%

## THANK YOU

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