

Firstsource Solutions Limited

Q3 FY 2008-09 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

- *Financial Performance – Q3 FY2009*
- **Business Outlook**

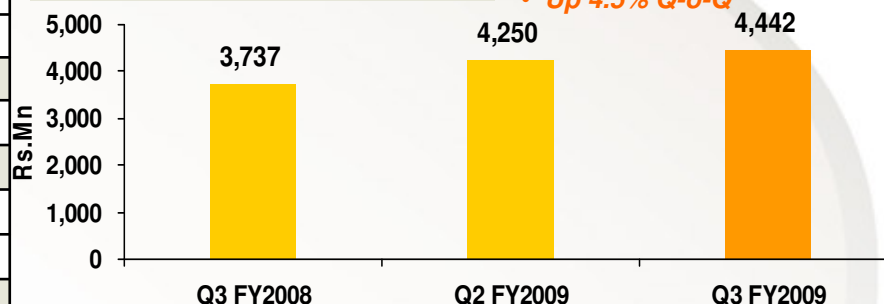


Financial Performance – Q3 FY2009

(IN INR Million)	Q3 FY 2008	Q2 FY 2009	Q3 FY 2009
Income from services	3,589	4,290	4,473
Other operating Income	148	(40)	(31)
Revenue from operations	3,737	4,250	4,442
Personnel & Operating Exps	3,160	3,605	3,987
Operating EBITDA	577	645	455
Operating EBITDA %	15.4%	15.2%	10.3%
Depreciation / amortization	231	212	255
Operating EBIT	346	433	201
Operating EBIT %	9.3%	10.2%	4.5%
Other Income / (expense)	85	(45)	(11)
Interest expense/ (Income), net	193	5	9
Loss/(gain) due to exchange variation and amortized cost on fair value of FCCB	(1)	28	30
PBT	239	355	151
PBT (% of total income)	6.3%	8.4%	3.4%
Taxes	37	73	33
Minority Interest	(4)	(1)	2
PAT	206	283	116
PAT (% of total income)	5.4%	6.7%	2.6%
PAT excl Fx var. and amortization on FCCB	205	311	145
Adjusted PAT (% of total income)	5.4%	7.4%	3.3%
Reported Diluted EPS (Rs.)	0.44	0.52	0.21
Adjusted Diluted EPS (Rs.) – Without Fx var. and amortization on FCCB	0.44	0.57	0.27

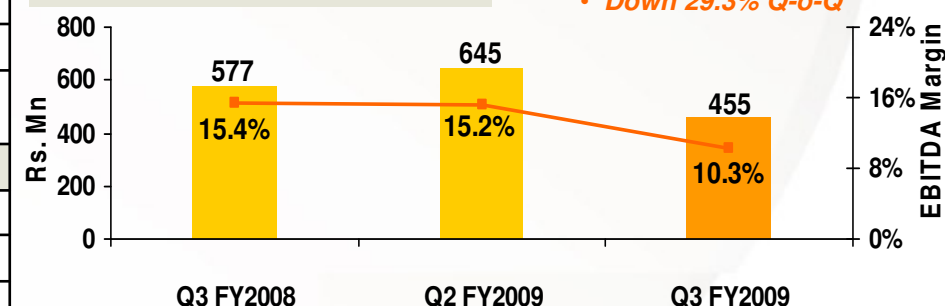
Revenue from Operations

- Up 18.9% Y-o-Y
- Up 4.5% Q-o-Q



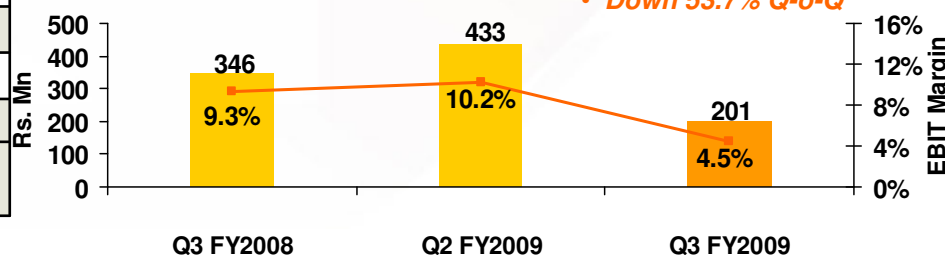
Operating EBITDA

- Down 21.1% Y-o-Y
- Down 29.3% Q-o-Q



Operating EBIT

- Down 42.1% Y-o-Y
- Down 53.7% Q-o-Q

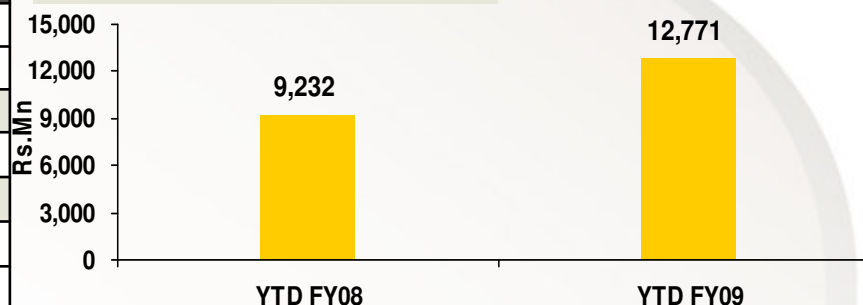


Financial Performance – YTD FY2009

	For Nine Months	
(IN INR Million)	YTD FY2008	YTD FY2009
Income from services	8,714	12,779
Other operating Income	518	(8)
Revenue from operations	9,232	12,771
Personnel & Operating Exps	7,525	11,066
Operating EBITDA	1,707	1,705
Operating EBITDA %	18.5%	13.4%
Depreciation / amortization	634	690
Operating EBIT	1,073	1,015
Operating EBIT %	11.6%	8.0%
Other Income / (expense)	293	(39)
Interest expense/ (Income), net	155	38
Loss/(gain) due to exchange variation and amortized cost on fair value of FCCB	(1)	860
PBT	1,213	79
PBT (% of total income)	12.7%	0.6%
Taxes	114	180
Minority Interest	(6)	1
PAT	1,105	(102)
PAT (% of total income)	11.6%	0.8%
PAT excl Fx var. and amortization on FCCB	1,104	758
Adjusted PAT (% of total income)	11.6%	5.9%
Reported Diluted EPS (Rs.)	2.51	(0.24)
Adjusted Diluted EPS (Rs.) – Without Fx var. and amortization on FCCB	2.51	1.39

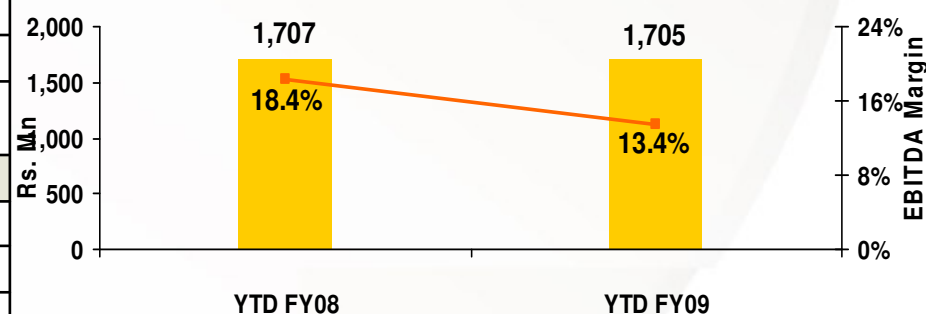
Revenue from Operations

• Up 38.3% Y-o-Y



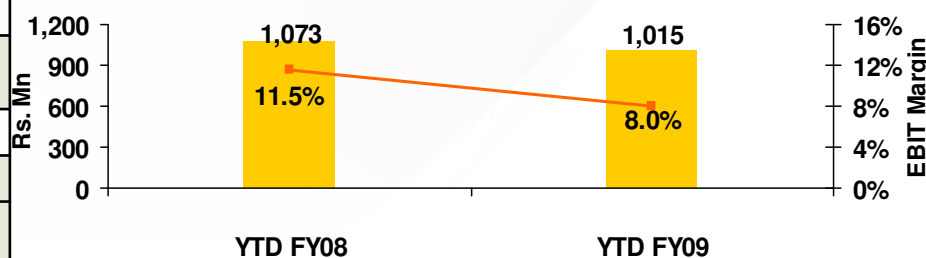
Operating EBITDA

• Down 0.1% Y-o-Y



Operating EBIT

• Down 5.4% Y-o-Y



Q3 FY2009 Highlights (1 of 3)

Q3 FY2009 Performance Analysis

- **Operating Revenue growth**

- Q-o-Q growth of 4.5% in INR terms and 8.1% decline in USD terms (excluding cross currency movement USD terms decline is 1.9%)
- Y-o-Y growth of 18.9% in INR terms and 8.7% growth in constant USD terms (excluding cross currency movement)

- **Operating EBIT**

- Q3 Operating EBIT margin at 4.5% (Rs 201 million) as compared to 10.2% (Rs 433 million) in Q2; a drop of Rs 232 million largely on account of the following factors:

Positive Impact	Amount (Rs mn)	
• Forex gains on translation	35	
Negative Impact	Amount (Rs mn)	
• Large ramps / one time program start up costs		
- Domestic business including four new centers build outs	122	
- Migration of program from Argentina to Philippines	23	
- US mailroom ramp	10	
	Total	155
• Lower liquidation rate in Collections	33	
• Delay in receiving payments from US state Governments affecting healthcare business	40	
• SG&A (Salary increase, gratuity provision)	32	
	260	

Q3 FY2009 Highlights (2 of 3)

- **Foreign Exchange Hedges**

- Outstanding FX hedges at \$121 million (USD and GBP covers) as on December 31, 2008
 - 100% coverage FY09, 65% coverage FY10, 25% coverage FY11

- **22,520 employees as on December 31, 2008**

- 17,991 employees based in India and 4,529 employees based outside of India
- Net addition of 2,944 employees in Q3 FY09 compared to net addition of 500 employees in Q3 FY08.
- Net addition of 5,151 employees in YTD FY09 compared to net addition of 2,694 employees in nine months ended December 2007.
 - Excluding MedAssist, net additions for nine months ended December 2007 were 1,160.

- **Attrition**

- Q3 annualized attrition (post 180 days)
 - Domestic – 68.8%
 - US/ UK – 38.8%
 - Offshore (India/ Argentina/ Philippines) – 35.8%

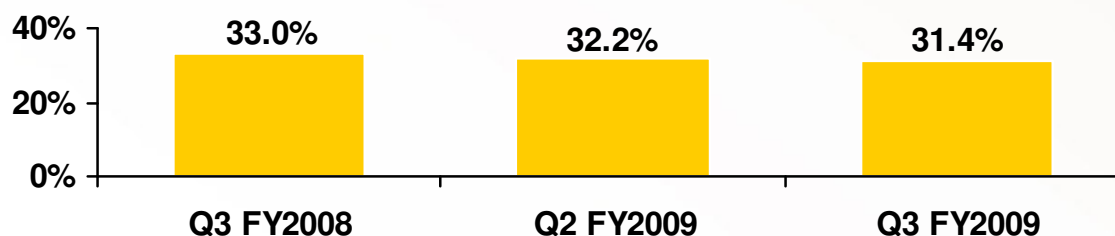
- **Seat capacity of 17,715 seats worldwide**

- Added four new delivery centers in India at Airoli (Mumbai), Siliguri, Bhubaneshwar, and Jalandhar
- Seat fill factor at 74% for Q3 FY09 compared to 75% in Q2 FY09

Q3 FY2009 Highlights (3 of 3)

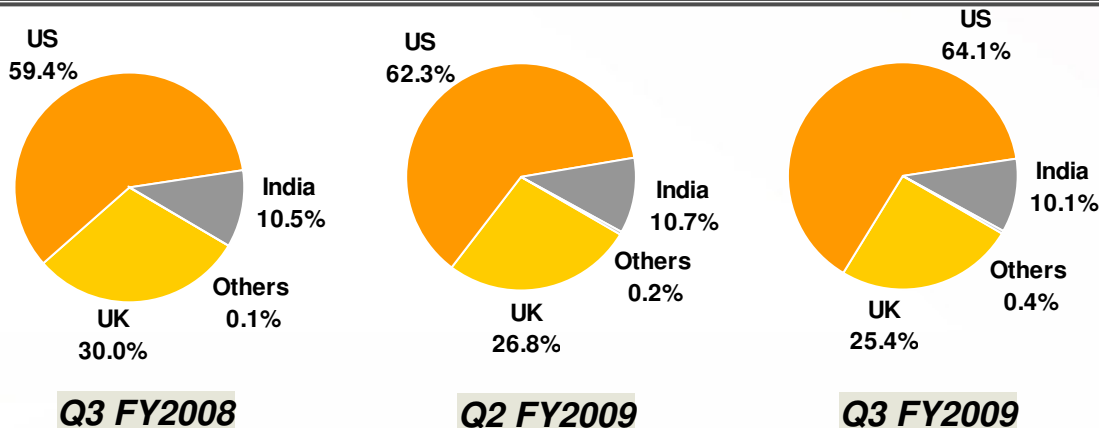
Client concentration

Revenue from top five clients



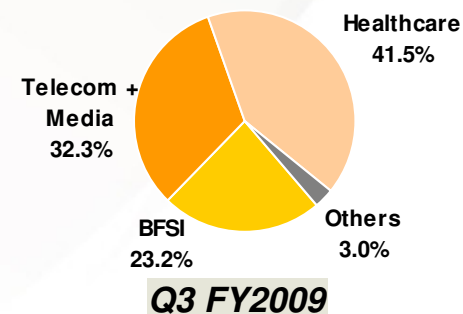
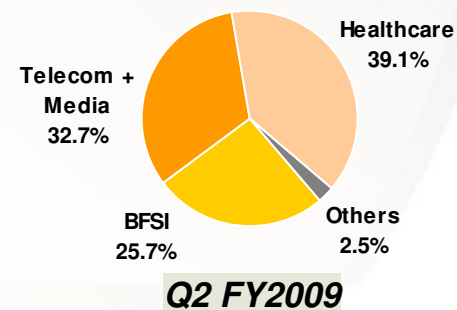
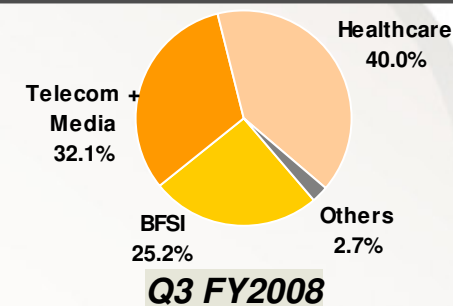
Note: Largest client contributed 10.5% of income from services in Q3 FY2009

Revenues by geography



Note: Revenues considered above are Income from services

Revenues by vertical



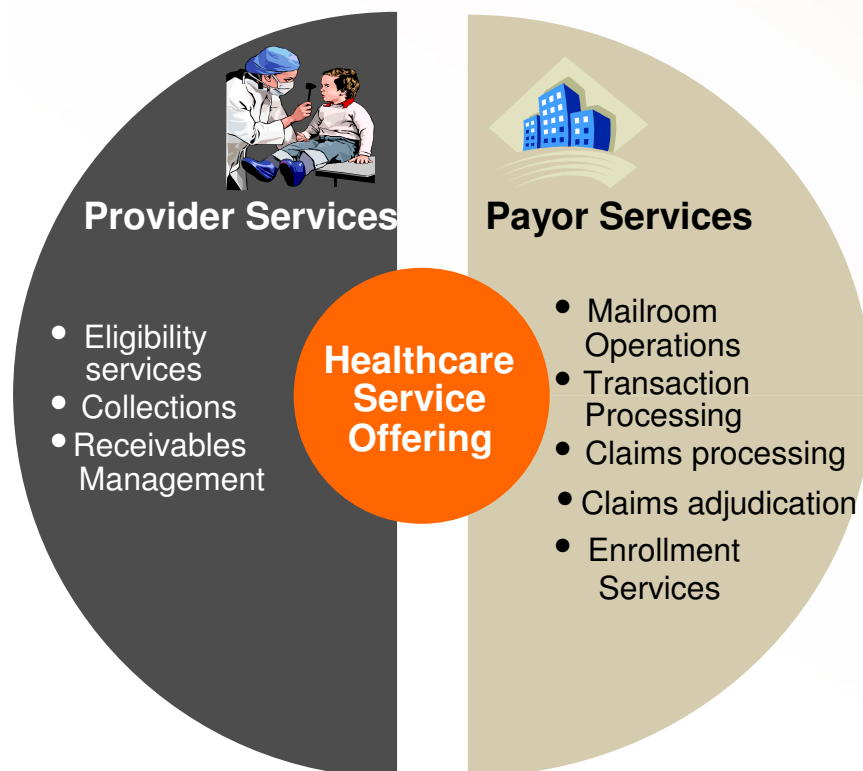
Agenda

- Financial Performance – Q3 FY2009
- *Business Outlook*



Healthcare – An Overview

Broad Service Offerings and Segments



Revenue contributed

42% of income from services (Q3 FY09)

Q3 FY2009 Highlights

- One new deal and two process ramp downs in payor segment
- 15 net contract additions in provider segment
- Healthy pipeline in both payor and provider segment

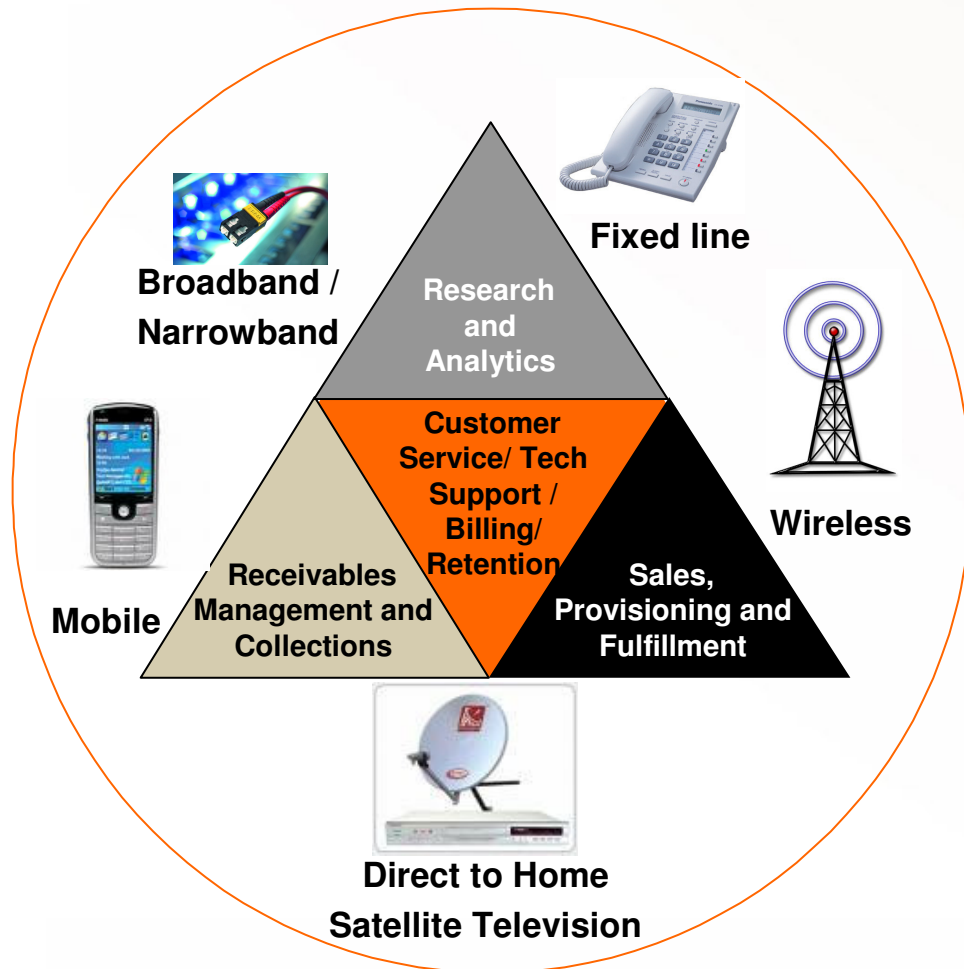
Current trend and outlook

- **Recession in US and resultant budgetary pressures have begun impacting hospital claims reimbursements by States**
 - A few states have also begun capping enrollment services and trimming service coverage
- **Healthcare receivables management and collections business in provider segment is getting impacted**
 - Percentage of patients unable to pay bills is rising*
 - Worsening of situation may impact profitability in the future
- **Expect policy / legislative changes from Obama administration towards controlling healthcare costs, stricter regulation on service, coverage and price**
 - Adverse impact on outsourcing is unlikely, however watching developments closely

** Survey of US Hospitals by the American Hospital Association*

Telecommunications & Media – An Overview

Broad Service Offerings and Segments



Revenue contributed

32% of income from services (Q3 FY09)

Q3 FY2009 Highlights

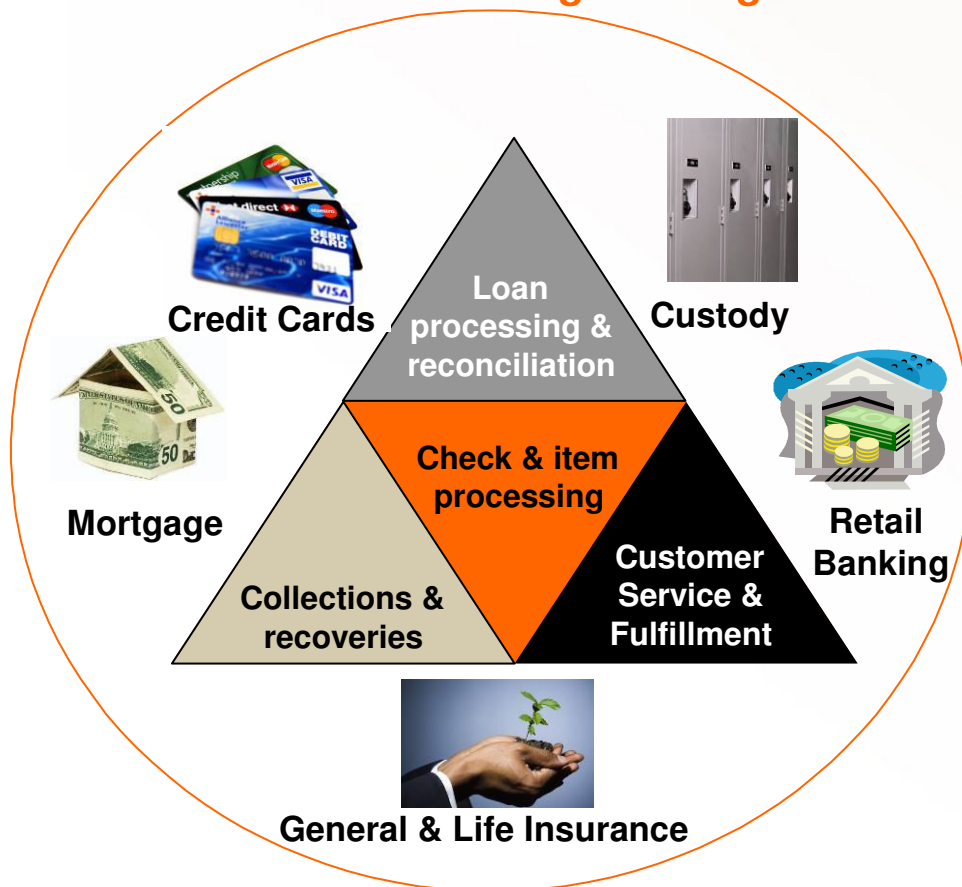
- **One process Ramp up, no process ramp down**
- **Large scale ramp-up for domestic clients**
 - Four new delivery centers commissioned in Airoli (Mumbai), Siliguri, Bhubaneswar and Jalandhar

Current trend and outlook

- **Domestic clients**
 - Continues to show good growth momentum with new processes and businesses being added
 - Large scale ramp-ups have impacted profitability in Q3. Focus is on stabilizing the operations
- **International clients**
 - Starting to see good momentum with most large customers projecting increased volume for the next year

BFSI – An Overview

Broad Service Offering and Segments



Revenue contributed

23% of income from services (Q3 FY09)

Q3 FY2009 Highlights

- **One Collection process ramp down**
- **Witnessed continued stress on liquidation rates and pressure on profitability in Collections business**
 - Profitability impact was more prominent as Q3 is traditionally a weaker quarter for Collections business due to lesser number of business days and holiday season
- **Witnessed some volumes fluctuations in non-collection BFSI business**

Current trend and outlook

- **Deal flow from BFSI sector continues to be sluggish, though starting to see some new segment of work in the US**
 - Check processing
 - Healthcare payment processing on behalf of banks
- **Increasing unemployment levels in US is a concern for collections business**
 - Situation is extreme and beyond what we've seen in past cycles making it difficult to predict the relationship between unemployment and collection liquidation rate
 - Don't expect a strong recovery until US employment scene recovers

Business Outlook

- **Expected changes from Q3**

- Performance would recover in the next quarter backed by
 - Completion of large scale ramps in domestic business
 - Improvement in Collections profitability on account of higher liquidation rates due to tax seasonality

- **Growth in existing business – expect two major deal closures**

- Additional service line with an existing telecom client, annual contract value of \$4 million. To ramp up in Q1 FY10
- Additional onshore process with an existing telecom client, annual contract value of \$5 million. To ramp up in Q4 FY09

- **Expanding delivery footprint**

- Planning two more delivery centers in India in Q4 FY09 – Bhopal and Coimbatore

- **Revenue outlook for FY09**

- Maintaining 32% revenue growth guidance in rupee terms

- **Margins for FY09**

- Operating EBIT forecast was 10% - 10.5% for the year.
- H1 FY09 operating EBIT margins were at 9.8%.
- Significant onetime and ramp up costs in Q3 has impacted YTD FY09 margins.
- Expect bounce back in Q4 but will not reach target levels due to:
 - Domestic business still in ramp / stabilization phase
 - Continued stress in Collections

THANK YOU

Firstsource (NSE: FSL, BSE: 532809, Reuters: FISO.BO, Bloomberg: FSOL@IN) is a global provider of BPO (business process outsourcing) services headquartered in India. Firstsource provides customized business process management to global leaders in the Banking & Financial Services, Telecom & Media and Healthcare sectors. Its clients include Fortune 500 Financial Services, Telecommunications and Healthcare companies. Firstsource has a global delivery model with operations in India, US, UK, Argentina and Philippines. (www.firstsource.com)

