

# Firstsource Solutions Limited

Q3 FY2011 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

- **Highlights**
- **Q3 FY2011 – Financial Performance**
- **Business Outlook**



## Q3 FY2011 Highlights (1/4)

### Q3 FY2011 Performance Analysis

- **Operating Revenue growth**
  - Y-o-Y growth of 4.8% in Rs. terms and 7.3% in constant currency terms
  - Q-o-Q growth of 2.2% in Rs. terms and 5.1% in constant currency terms
  - Strong growth in a seasonally weaker quarter driven by Barclaycard UK commencement
- **Operating EBIT**
  - Q3 FY11 operating EBIT margins lower by 50 bps compared to Q2 FY11; reduction largely on account of
    - Lower gains from realized hedges
    - Seasonal weakness in Q3 on account of lesser number of working days and lower liquidation rates in BFSI collections
    - Higher depreciation
  - Partially offset by
    - Contribution from Barclaycard UK

## Q3 FY2011 Highlights (2/4)

- **Strong cash generation momentum continues in Q3 FY11**
  - Cash balance of USD 80 mn
  - Delays encountered in invoicing and receivable cycle during previous quarter have been resolved
  - Including ~USD 5 mn Pipal divestment proceeds, cash balance will be ~USD 85 mn, this will be accounted in Q4 FY11
- **Extraordinary Items**
  - Gain of Rs. 79 million on Pipal divestment, accounted in other income
  - Onetime expenses of Rs. 64 million, largely towards facility restructuring in India

## Employee Strength

- **26,668 employees as on December 31, 2010**
  - 19,919 employees based in India and 6,749 employees based outside of India
  - Net addition of 1,759 employees in Q3 FY11 compared to net addition of 212 employees in Q2 FY11 and net addition of 876 in Q3 FY10

## Q3 FY2011 Highlights (3/4)

### Attrition

- **Q3 FY11 annualized attrition (post 180 days)**
  - Offshore (India and Philippines) – 54.8% compared to 50.1% in Q2 FY11
  - Onshore (US and UK) – 35.2% compared to 48.4 % in Q2 FY11
  - Domestic – 76.9% compared to 94.2% in Q2 FY11

### Seat Capacity and Utilization

- **Seat capacity of 20,844 seats worldwide**
  - Largely stable; reduced 31 seats during the quarter
  - 41 delivery centers as on December 31, 2010, compared to 42 as on September 30, 2010
    - Reduction of two centres of Pipal, addition of Thane centre in Mumbai (ABU)
  - Seat fill factor at 75% as on December 31, 2010, same as on September 30, 2010
    - Average seat fill factor for Q3 FY11 at 76%

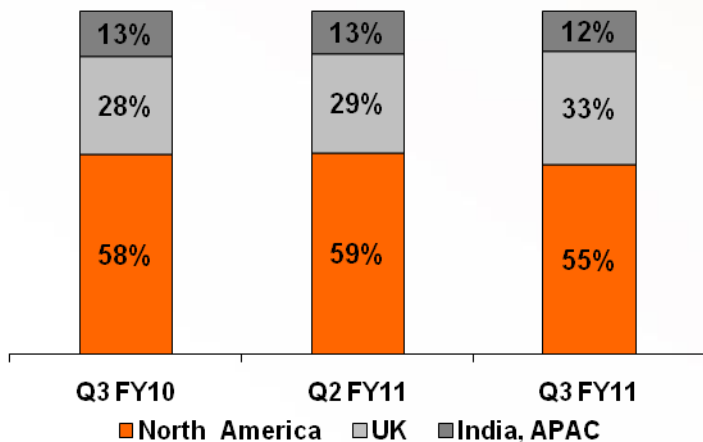
### Foreign Exchange Hedges

- **Outstanding FX hedges at \$21 million and £32 million for USD and GBP respectively**
  - **FY11:** 95% USD coverage at Rs. 47 levels and 85% GBP coverage at Rs.77 levels
  - **FY12:** Largely hedged till Q3 for USD at Rs. 48 levels and GBP at Rs. 75 levels

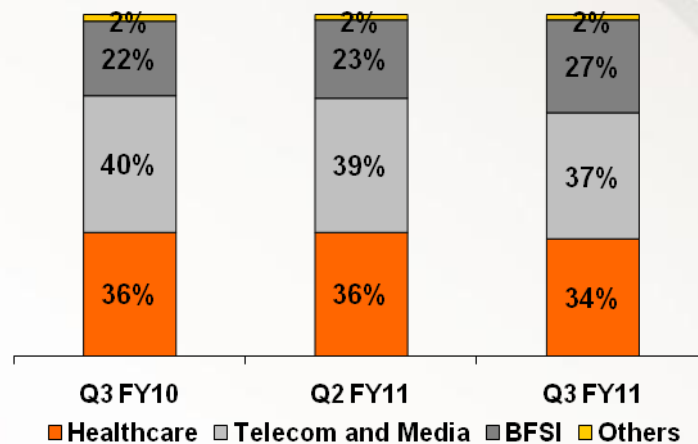


# Q3 FY2011 Highlights (4/4)

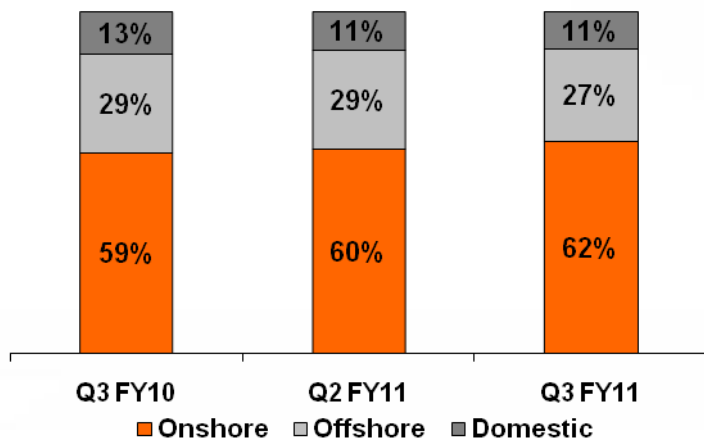
## By Geography



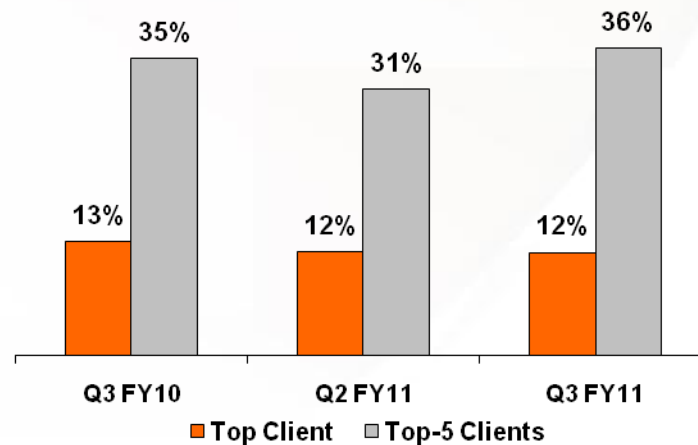
## By Verticals



## By Delivery Location



## Client Concentration



## Agenda

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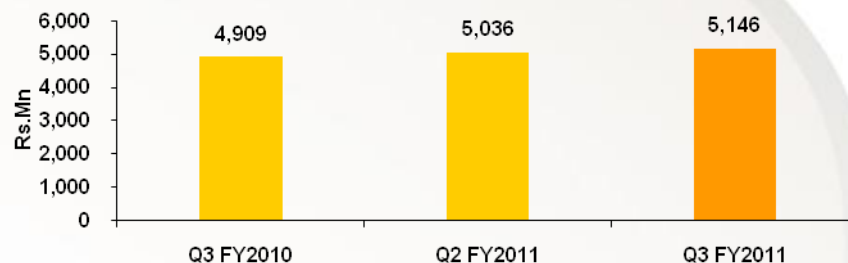


# Financial Performance – Q3 FY2011

(IN Rs. Million)	Q3 FY 2010	Q2 FY 2011	Q3 FY 2011
Income from services	4,840	4,900	5,048
Other operating Income	69	136	98
<b>Revenue from operations</b>	<b>4,909</b>	<b>5,036</b>	<b>5,146</b>
Personnel & Operating Expense	4,227	4,328	4,435
<b>Operating EBITDA</b>	<b>681</b>	<b>707</b>	<b>711</b>
<i>Operating EBITDA %</i>	<i>13.9%</i>	<i>14.0%</i>	<i>13.8%</i>
Depreciation / amortization	215	213	232
<b>Operating EBIT</b>	<b>467</b>	<b>494</b>	<b>479</b>
<i>Operating EBIT %</i>	<i>9.5%</i>	<i>9.8%</i>	<i>9.3%</i>
Other Income / (expense)	19	7	112
Interest Income / (expense), net	(53)	(53)	(55)
Amortized (cost ) on fair value of FCCB	(28)	(31)	(32)
Exchange gain/ (loss) on Foreign currency loan	(7)	(1)	1
Extraordinary (expenses)	-	-	(64)
<b>PBT</b>	<b>397</b>	<b>415</b>	<b>441</b>
<i>PBT (% of total income)</i>	<i>8.1%</i>	<i>8.2%</i>	<i>8.4%</i>
Taxes and Minority Interest	64	83	92
<b>PAT</b>	<b>333</b>	<b>332</b>	<b>350</b>
<i>PAT (% of total income)</i>	<i>6.8%</i>	<i>6.6%</i>	<i>6.6%</i>
Reported Basic EPS (INR)	0.78	0.77	0.81
Reported Diluted EPS (INR)	0.70	0.70	0.73

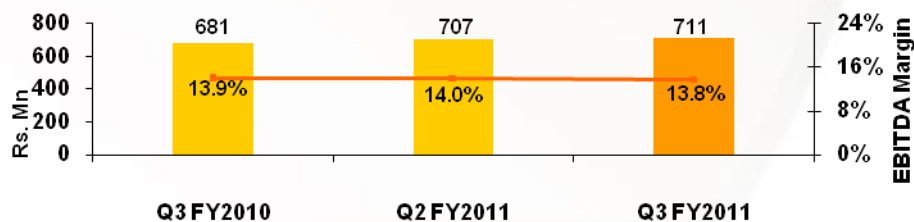
## Revenue from Operations

- Up 4.8% Y-o-Y
- Up 2.2% Q-o-Q



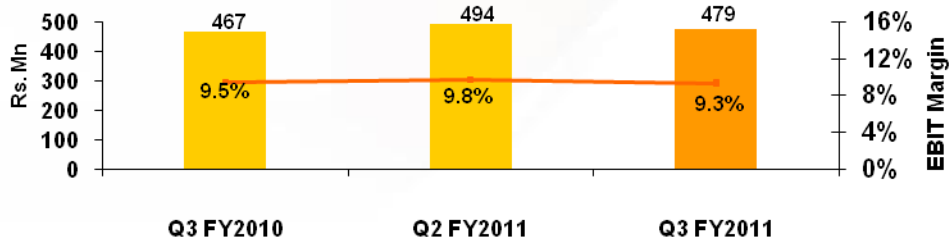
## Operating EBITDA

- Up 4.3% Y-o-Y
- Up 0.5% Q-o-Q



## Operating EBIT

- Up 2.7% Y-o-Y
- Down 3.1% Q-o-Q



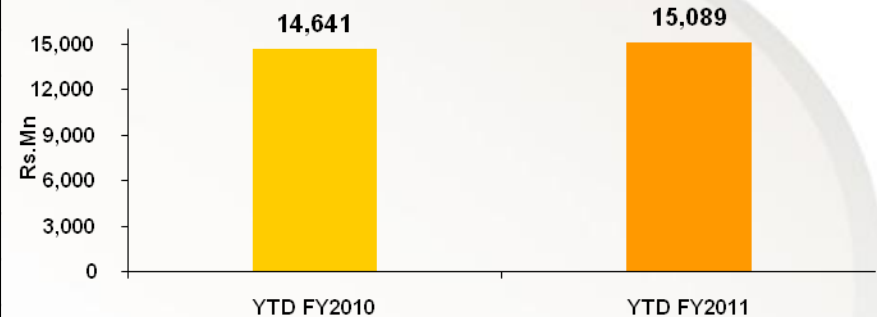


# Financial Performance – YTD FY2011

(IN INR Million)	For Nine Months	
	YTD FY2010	YTD FY2011
Income from services	14,531	14,707
Other operating Income	109	382
<b>Revenue from operations</b>	<b>14,641</b>	<b>15,089</b>
Personnel & Operating Expense	12,545	12,985
<b>Operating EBITDA</b>	<b>2,095</b>	<b>2,103</b>
<b>Operating EBITDA %</b>	<b>14.3%</b>	<b>13.9%</b>
Depreciation / amortization	668	658
<b>Operating EBIT</b>	<b>1,427</b>	<b>1,446</b>
<b>Operating EBIT %</b>	<b>9.7%</b>	<b>9.6%</b>
Other Income / (expense)	126	138
Interest Income / (expense), net	(156)	(165)
Gain/(loss) due to exchange var. and amortized (cost) on fair value of FCCB	(85)	(94)
Exchange gain/ (loss) on Foreign currency loan	(106)	2
Extraordinary (expenses)	(84)	(64)
Gain on FCCB Buy back	74	-
<b>PBT</b>	<b>1,196</b>	<b>1,263</b>
<b>PBT (% of total income)</b>	<b>8.1%</b>	<b>8.3%</b>
Taxes	187	242
Minority Interest	4	18
<b>PAT</b>	<b>1,005</b>	<b>1,002</b>
<b>PAT (% of total income)</b>	<b>6.8%</b>	<b>6.6%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>2.09</b>	<b>2.11</b>

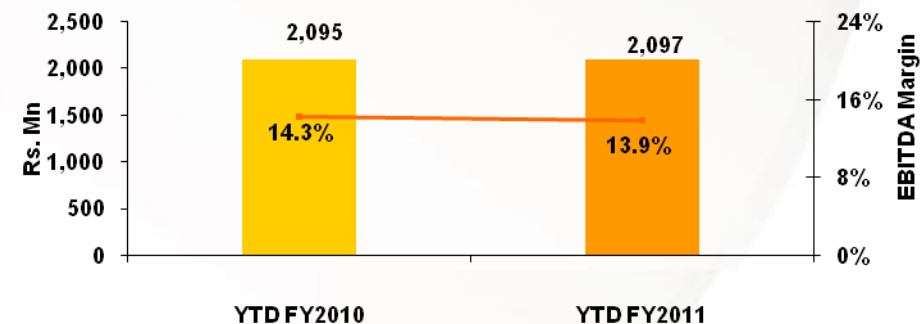
## Revenue from Operations

• Up 3.1% Y-o-Y



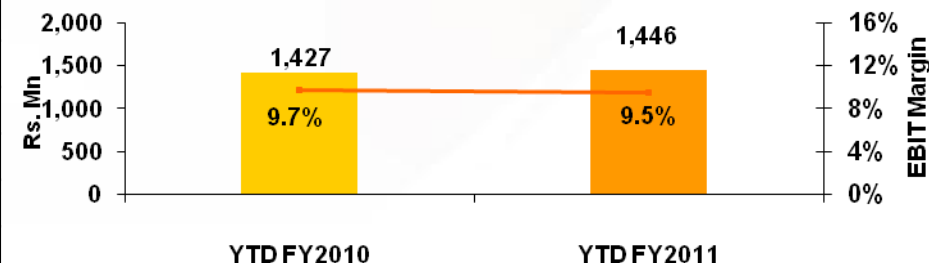
## Operating EBITDA

• Up 0.4% Y-o-Y



## Operating EBIT

• Up 1.3% Y-o-Y



## Agenda

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- **Business Outlook**





# Healthcare

## Headed by



President, Healthcare/  
CEO, North America  
Tom Watters

## Market Geography



## Key Segments



## Revenue Contribution

34%

of income from services (Q3 FY11)

## Employees

2,904

as on Dec 31, 2010

## Capacity and Utilization

3,324 seats

as on Dec 31, 2010

71%

Seat fill factor

## Delivery Geography



## Industry trends

- Implementation of provisions for healthcare reform continue to progress with movement forward in the key areas of Medical Loss Ratio and Health Information Exchanges
- U.S. unemployment decreased to 9.4% in December and it is estimated that the jobless rate will be between 8.9% and 9.1% at the end of 2011
- Accelerated merger and acquisition activity continues with key competitor consolidations recently announced
- Providers continue to recover from the economic recession while focused on electronic health record implementations during current opportunity to secure Federal funding
- Payers are fiscally sound and are operating with urgency to implement significant changes to their operations during 2011 in order to comply with reform mandates

## Business outlook

- Long term outlook for high U.S. unemployment will sustain interest in onshore delivery with increasing requirement that services be delivered locally
- Payers, faced with immediate implementation requirements, will continue to look to outsourcing solution providers to reduce administrative costs
- States have begun to look at how they will accommodate the uninsured coming onto health plan or Medicaid rolls in 2014, thus providing a favorable long term outlook for enrollment and eligibility services
- Providers will remain focused on restoring financial stability to their operations and will continue to see cash acceleration services toward this end
- Payer backlogs and delays for several States impacting Provider base revenue realization
- Stable growth and favorable financial performance



firstsource

# Telecommunications & Media

## Headed by



EVP – T&M  
Santanu Nandi

## Market Geography



## Key Segments



Cable & Satellite  
Television



Broadband /  
Narrowband



Wireless  
and Mobile



Fixed  
line

## Revenue Contribution

26%

income from  
services  
(Q3 FY11)

## Employees

6,718

as on Dec 31,  
2010

## Capacity and Utilization

4,812  
Seats

as on Dec 31,  
2010

77%

Seat fill factor

## Delivery Geography



## Industry trends

- Clients are focusing on vendor consolidation, however pace of it varies across clients
- Slower new customer sign-ups in certain market segments is driving enhanced focus on provisioning, servicing and retention of existing customers
- Companies are exploring alternatives for transforming existing operational models
- Clients are beginning to explore integrated and optimized value proposition for multi-channel customer interaction. Increasing thrust on business value and innovation in delivery

## Business outlook

- Well positioned to gain from vendor consolidation process at our clients and prospects. However, near term challenges around elongated decision making at key existing customers persist
- Slower new customer sign-up is driving lower volumes in existing business
- Client operational model transformation (in-house/outsourced) presents both opportunities as well as challenges
- Emerging channels such as web chat and social media will see more interest in the market for sales and service



# BFSI

## Headed by



EVP - BFSI  
Sanjeev Sinha

## Market Geography



## Key Segments



Credit Cards



Retail Banking



Mortgage



General and Life Insurance

## Revenue Contribution

27%

income from services (Q3 FY11)

## Employees

4,797

as on Dec 31, 2010

## Capacity and Utilization

3,615 Seats

as on Dec 31, 2010

81%

Seat fill factor

## Delivery Geography



## Industry trends

- Interest in outsourcing continues to pickup in financial services organisation across US & UK
- US Organizations are bracing for guidelines that may be announced by the newly created Consumer Financial Protection Bureau
- The number of new mortgages approved by the major UK banks has fallen further in in December
- U.S. home values are also poised to drop by more than \$1.7 trillion this year
- Debit cards overtake cash for the first time in the UK. In the US also, more debit cards were issued
- Financial services firms gearing up for investments in social media

## Business outlook

- 700+ employees of Barclaycard UK on roles of Firstsource from 1<sup>st</sup> November
- Prepaid card issuers in the US are showing interest in our services
- Lenders are forecasted to grow their credit card, auto and commercial loan portfolios over the course of the year.
- With the interest rates expected to rise in the UK, demand for remortgaging will go up as consumers move to fix rates
- In the Collections business liquidation rates continue to move up even though volumes are contracting
- Credit card account originations are on the rise again as account-delinquency rates continue to fall and consumers continue to show discipline in their borrowing
- Increased pressure on commission rates in collections





# Asia Business Unit (ABU)

## Headed by

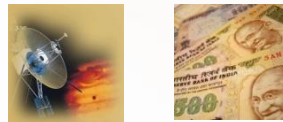


EVP, Asia BU  
Sanjay Venkataraman

## Market Geography



## Key Segments



**Telecom & Media**      **BFSI**

## Revenue Contribution

**11%**

income from services  
(Q3 FY11)

## Employees

**11,952**

as on Dec 31, 2010

## Capacity and Utilization

**8,799**  
Seats

as on Dec 31, 2010

**73%**

Seat fill factor

## Delivery Geography



## Industry trends

- Telecom sector continues to show growth
- Mobile Number Portability (MNP) and 3G services launched in India
- TRAI brings in tight regulations on telemarketing
- Insurance Regulatory and Development Authority (IRDA) proposes draft regulations on insurance outsourcing, customer care currently classified as non-core
- Focus by large BPO players on the domestic market increases

## Business outlook

- Increased traction with existing customers, expanding service lines
- MNP launch has led to a modest increase in volumes
- 3G services and support offer an area of opportunity
- Continued and renewed focus on driving operational efficiencies



## Business Outlook

- **Q4 FY11**

- Expect strong performance both on revenues and profitability driven by
  - Full quarter impact of Barclaycard UK deal
  - Positive seasonal factors in BFSI Collections
  - Normalization of payment cycle in Healthcare provider business
  - Improved profitability in Asia Business Unit



## 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 & Financial Services, Telecom & 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 and Philippines. ([www.firstsource.com](http://www.firstsource.com))

