

Firstsource Solutions Limited

Q4 and FY2010 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

- **FY2010 Highlights**
- **Financial Performance**
 - **FY2010**
 - **Q4 FY2010**
- **Business Outlook**





FY2010 Highlights (1/3)

Financial performance

- **Operating revenue growth**
 - Y-o-Y growth of 12.7% in INR terms and 11.2% growth in constant currency terms
- **Operating EBIT margin**
 - 190 bps margin expansion Y-o-Y. FY10 Operating EBIT margin at 9.8% as compared to 7.9% in FY09
 - Y-o-Y Op. EBIT growth of 39.8%. FY10 Operating EBIT at Rs. 1,933 million as compared to Rs. 1,383 million in FY09

Organizational restructuring

- Reorganized into four independent business units effective March 2009
- Restructuring is now complete and the strong vertical domain focus is an important differentiator for our customers

Capacity Utilization

- Improved seat fill factor from 70% in March 2009 to 80% in March 2010



FY2010 Highlights (2/3)

Continue to scale operations

- **Employees**

- 24,860 employees as on Mar 31, 2010, added 3,290 employees during the year
 - 1,925 employees added in India, 1,365 additions outside India

- **Global delivery**

- In a protectionist environment, well established onshore presence has helped in winning more business in US and UK
 - Added over 700 employees in UK and over 400 employees in US
- Expanded Philippines delivery to over 650 employees

- **Clients**

- Expanding relationships with existing clients
 - 8 of the top 10 clients have grown during the year
- Added marquee client logos which have significant growth potential
 - Leading UK telecom service provider
 - 2 of the top 15 credit card issuers in the US
 - A leading issuer of prepaid debit cards in the US
 - New business wins in Healthcare provider up 60% y-o-y



FY2010 Highlights (3/3)

Significant awards and recognition

- **Won the UK Trade & Investment's (UKTI) Indian Investor of the Year award**
- **Recognised as one of the Top 100 companies in the world by CIO magazine for innovative use of IT**
- **Ranked # 2 among extended business service providers** for healthcare business
- **Recognized among Top 25 companies in India for Excellence in Corporate Governance** for the year 2009 by the Institute of Company Secretaries of India (ICSI)
- **Won in 2 categories at IQPC USA**, Best Process Improvement in Service & Transaction Project and Deployment Leader of the Year

Other highlights

- **Received third annual HFMA peer review designation** for eligibility services, receivables management, collection services and the Medical Advantage Plan (MAP™) program
- Firstsource's wholly-owned subsidiary **MedAssist became a U.S. General Service Administration (GSA) contractor under the Multiple Award Schedule (MAS) of the US Government**

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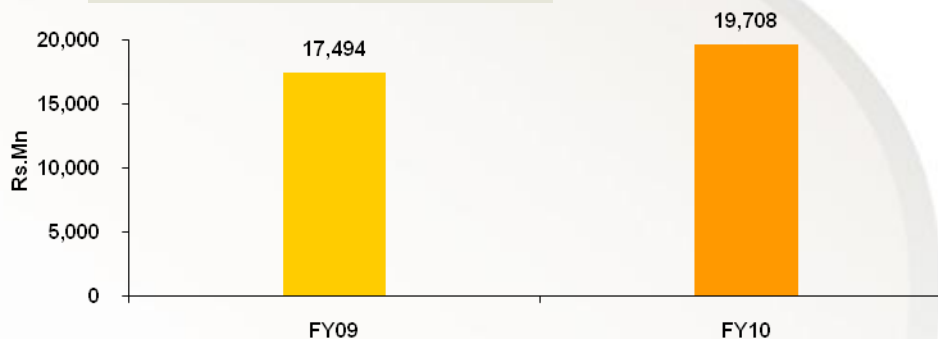


Financial Performance – FY2010

(IN INR Million)	FY2009	FY2010
Income from services	17,525	19,539
Other operating Income	(32)	169
Revenue from operations	17,494	19,708
Personnel & Operating Expense	15,175	16,903
Operating EBITDA	2,319	2,805
Operating EBITDA %	13.3%	14.2%
Depreciation / amortization	936	873
Operating EBIT	1,383	1,933
Operating EBIT %	7.9%	9.8%
Other Income / (expense)	(337)	136
Interest Income / (expense), net	(125)	(229)
Gain/(loss) due to exchange var. and amortized (cost) on fair value of FCCB	892	115
Exchange gain/ (loss) on Foreign currency loan	(18)	(111)
Extraordinary (expenses)	138	84
Gain on FCCB Buy back	635	74
PBT	507	1,603
PBT (% of total income)	3.0%	8.1%
Taxes and Minority Interest	200	242
PAT	307	1,361
PAT (% of total income)	1.8%	6.9%
Reported Basic EPS (Rs.)	0.72	3.17
Reported Diluted EPS (Rs.)	0.72	2.84

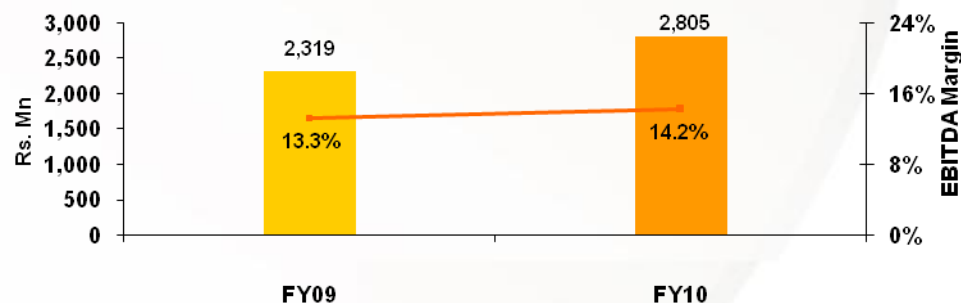
Revenue from Operations

• Up 12.7% Y-o-Y



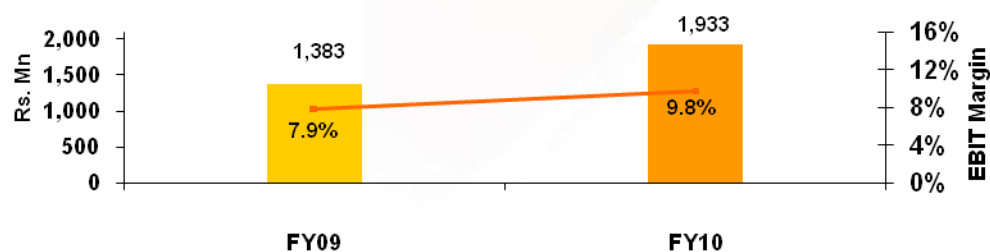
Operating EBITDA

• Up 21.0% Y-o-Y



Operating EBIT

• Up 39.8% Y-o-Y



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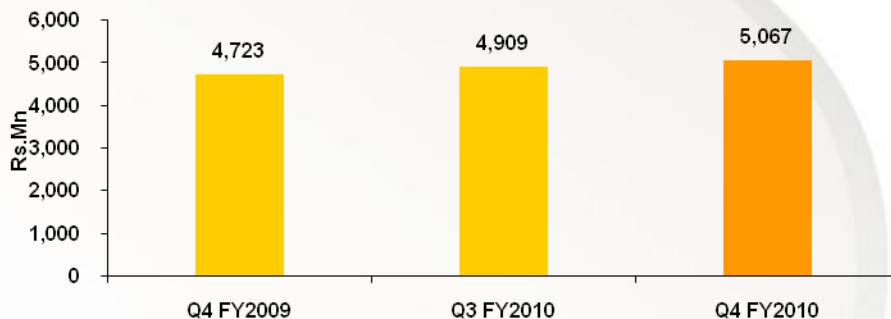


Financial Performance – Q4 FY2010

(IN INR Million)	Q4 FY 2009	Q3 FY 2010	Q4 FY 2010
Income from services	4,746	4,840	5,008
Other operating Income	(23)	69	59
Revenue from operations	4,723	4,909	5,067
Personnel & Operating Expense	4,115	4,227	4,362
Operating EBITDA	607	682	704
Operating EBITDA %	12.8%	13.9%	13.9%
Depreciation / amortization	246	215	204
Operating EBIT	361	467	501
Operating EBIT %	7.6%	9.5%	9.9%
Other Income / (expense)	(297)	22	8
Interest Income / (expense), net	(87)	(57)	(66)
Gain/(loss) due to exchange var. and amortized (cost) on fair value of FCCB	(33)	(28)	(30)
Exchange gain/ (loss) on Foreign currency loan	(13)	(13)	(6)
Extraordinary (expenses)	(138)	-	-
Gain on FCCB Buy back	635	-	-
PBT	428	397	406
PBT (% of total income)	9.7%	8.1%	8.0%
Taxes and Minority Interest	19	64	51
PAT	409	333	355
PAT (% of total income)	9.2%	6.8%	7.0%
Reported Basic EPS (Rs.)	0.95	0.78	0.83
Reported Diluted EPS (Rs.)	0.95	0.70	0.74

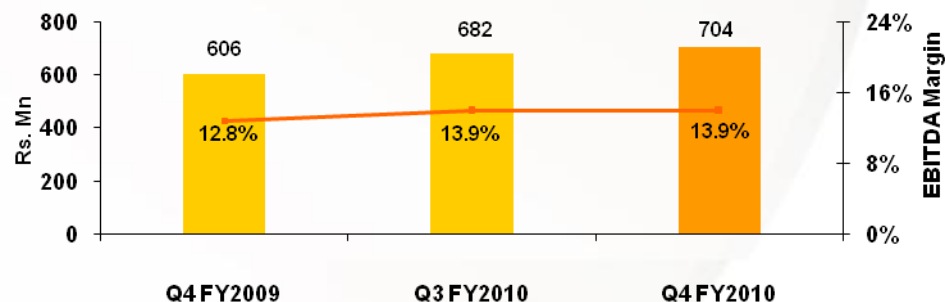
Revenue from Operations

- Up 7.3% Y-o-Y
- Up 3.2% Q-o-Q



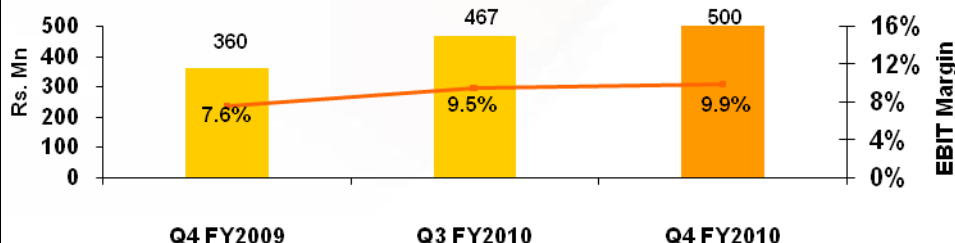
Operating EBITDA

- Up 16.0% Y-o-Y
- Up 3.3% Q-o-Q



Operating EBIT

- Up 38.4% Y-o-Y
- Up 7.0% Q-o-Q





Q4 FY2010 Highlights (1/4)

Q4 FY2010 Performance Analysis

- **Operating Revenue growth**
 - Q-o-Q growth of 3.2% in INR terms and 4.5% in constant currency terms
 - Y-o-Y growth of 7.3% in INR terms and 11.7% in constant currency terms
- **Operating EBIT**
 - Q4 FY10 operating EBIT margins higher by 40 bps compared to Q3 FY10, largely on account of :
 - Strong seasonality in collections due to tax refunds in the US
 - Ramp-up of existing telecom customers in Northern Ireland
 - Partially offset by
 - Significant reduction in volumes in Asia Business unit
 - Adverse forex impact net of gains on realized hedges
 - One time increase in SG&A cost due to US entity reorganization related fees and other expenses

Q4 FY2010 Highlights (2/4)

Foreign Exchange Hedges

- **Outstanding FX hedges at \$26 million and £35 million for USD and GBP respectively**
 - FY11 - 85% USD coverage at Rs. 46 levels and 80% GBP coverage at Rs. 79 levels

Employee Strength

- **24,860 employees as on March 31, 2010**
 - 18,784 employees based in India and 6,076 employees based outside of India
 - Net reduction of 2,448 employees in Q4 FY10 compared to net addition of 876 employees in Q3 FY10 and net reduction of 950 in Q4 FY09
 - 2,773 employees reduced in domestic business due to downsizing on account of lower volumes, 180 employees added in India for offshore delivery and 145 added outside India, primarily in UK

Attrition

- **Q4 FY10 annualized attrition (post 180 days)**
 - Offshore (India and Philippines) – 43.5% compared to 43.7% in Q3 FY10
 - Onshore (US and UK) – 34.5% compared to 34.1% in Q3FY10
 - Domestic – Attrition % for the current quarter not relevant due to significant downsizing in Asia Business unit. Attrition for was 68.8% in Q3 FY10

Q4 FY2010 Highlights (3/4)

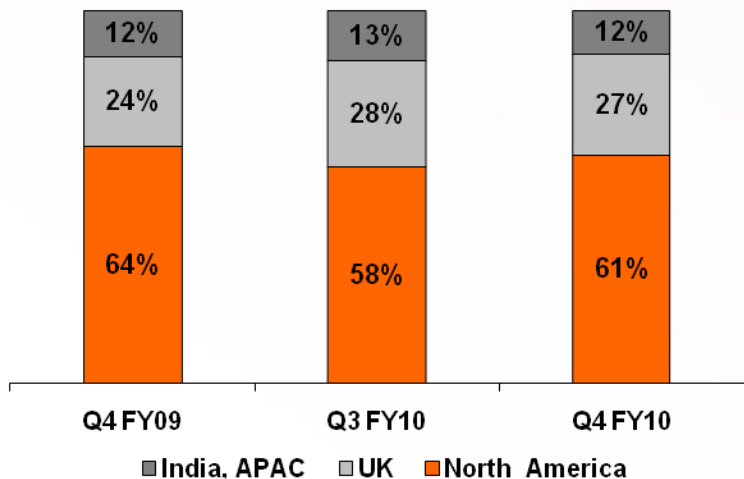
Seat Capacity and Utilization

- **Seat capacity of 19,556 seats worldwide**
 - 42 delivery centers as on March 31, 2010 compared to 43 as on December 31, 2009
 - Buenos Aires, Argentina delivery center shut down post successful completion of migration to Manila, Philippines
 - Seat fill factor at 80% as on March 31, 2010, same as on December 31, 2009
 - Average seat fill factor for Q4 FY10 at 80%

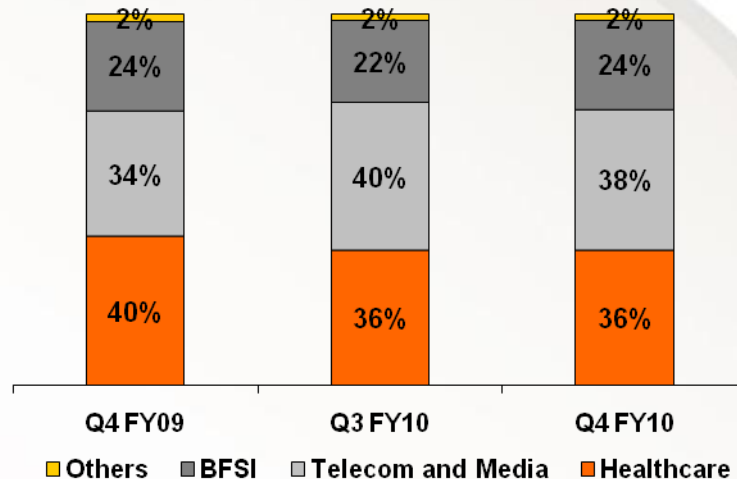


Q4 FY2010 Highlights (4/4)

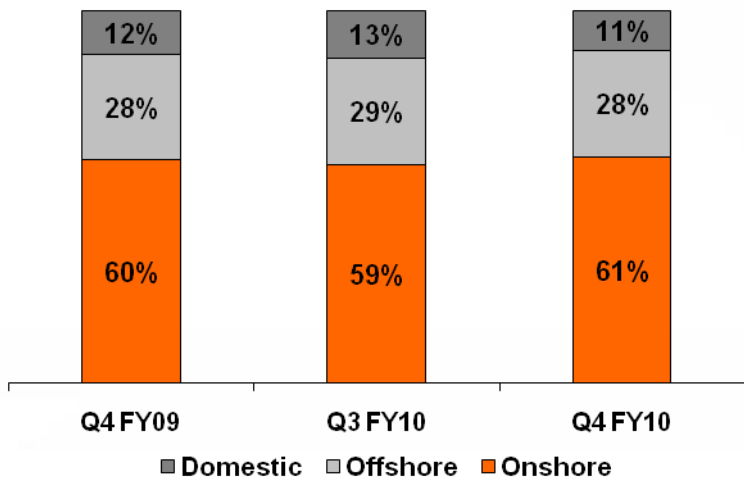
By Geography



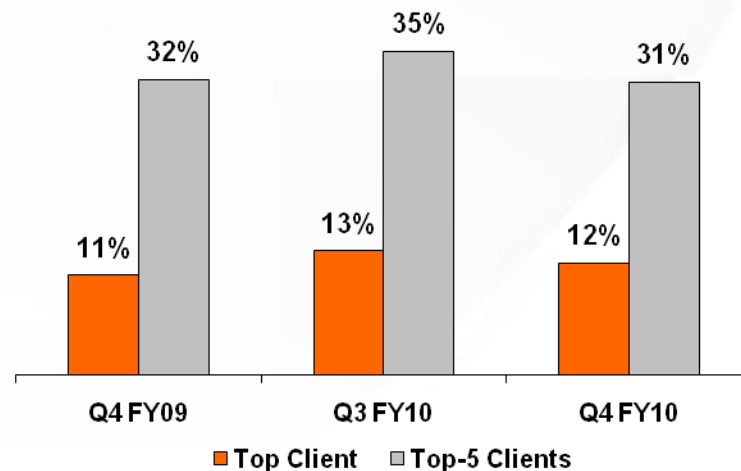
By Verticals



By Delivery Location



Client Concentration



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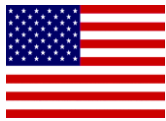
Healthcare

Headed by



President, Healthcare/
CEO, North America
Tom Watters

Market Geography



Key Segments



Payer



Provider

Revenue Contribution

37%

of income from services (Q4 FY10)

Employees

2,970

as on March 31, 2010

Capacity and Utilization

3,481 seats

as on March 31, 2010

76%

Seat fill factor

Delivery Geography



Industry trends

- **Landmark healthcare legislation was signed into law bringing sweeping reforms to all industry constituencies**
 - Timeline for implementation will be over the next decade, with some provisions being implemented immediately
 - Insurance reforms will initially lead, followed by reforms to payment and reimbursement methodologies; significant changes to the healthcare delivery model will take place in 2014 and thereafter
- **U.S. unemployment is sustaining at 9.7%, however job losses have slowed and recent improvements in other leading indicators suggest moderate economic recovery**
- **Reform measures are driving immediate interest by payers as they seek to comply with initial provisions that impose new regulatory controls**

Business outlook

- **Sustained U.S. unemployment is driving renewed protectionist sentiment as some business opportunities are predicated on work being performed locally; well-positioned to respond to increased onshore requirements**
- **Mandated medical loss ratios for insurers will drive increased need for efficiencies, and thus result in increased demand for outsourcing**
- **Providers will similarly look to decrease costs as they face cuts to reimbursement over ten years and beginning in 2010**
- **Expansion of Medicaid will bring increased enrollment needs and favorably impact Eligibility Services**
- **Positive outlook with sustained, favorable growth and operating performance**

Expect moderately higher growth in FY11 compared to FY10



Telecommunications & Media

Headed by



Joint Managing Director
Matthew Vallance

EVP – T&M
Santanu Nandi

Market Geography



Key Segments



Cable & Satellite Television



Broadband / Narrowband



Wireless and Mobile



Fixed line

Revenue Contribution

27%

of income from services (Q4 FY10)

Employees

7,145

as on March 31, 2010

Capacity and Utilization

4,342 Seats

as on March 31, 2010

87%

Seat fill factor

Delivery Geography



Industry trends

- **Consolidation in the market:**
 - UK mobile market - Orange & T-mobile merger approved, creates new market leader
 - US market – merger of Centurylink and Quest
 - Clients continue to consolidate vendors
- **Smaller fixed line / broadband operators (Orange, Vodafone & Kingston Communications) hiving off networks to BT, will ride on its next generation network**
- **HDTV offerings become mainstream (1 in 4 client customers now have HDTV) with 3D TV the new frontier**
- **Key client going Quad-Play**
- **State of US economy continues to impact enterprise telecom market, albeit at reduced pace**

Business outlook

- **Seeing growth opportunities in:**
 - Client expansion into new product lines
 - Technical support for more complex products (smartphones, IPTV etc.)
 - Sales & customer service particularly through new channels like web chat and forum management
- **Continue to see strong growth opportunity from vendor consolidation**
- **Beginning to see greater client interest in multi-country offshore solutions**
- **Operators using BT's networks create larger opportunities for them and consequently for service providers**
- **Opportunities to support cost cutting initiatives for enterprise clients materializing**

Expect strong revenue growth to continue in FY11



firstsource

BFSI

Headed by



Joint Managing Director
Matthew Vallance

EVP - BFSI
Sanjeev Sinha

Market Geography



Key Segments



Credit Cards



Retail Banking



Mortgage



General and Life Insurance

Revenue Contribution

24%

income from services
(Q4 FY10)

Employees

3,409

as on March 31, 2010

Capacity and Utilization

3,090
Seats

as on March 31, 2010

87%

Seat fill factor

Delivery Geography



Industry trends

- Signs of economic recovery with increasing yields in the collections business
- Banks looking at operating costs to generate a better cost to income ratio. Levers include consolidation, automation and outsourcing.
- Seeing an emerging trend of 'global markets – global delivery' vs. 'single market – global delivery'
- UK Retail Banking Consolidation/ Restructuring has gathered pace, more new entrants expected in both the lending and savings markets
- Cards industry contracting in our key markets, card issuers adopting cautious approach to lending
- Gross mortgage lending in UK 24% lower in Q1 10 vs. Q4 09

Business outlook

- Expect to see more deal activity in areas beyond collections such as customer care and back office operations
- Global delivery for global markets will create opportunities from our client base
- We expect to increase market share with our existing collections clients based on continued strong operational performance. Further growth will also come from growing the new clients that we have added in FY2010
- UK banking consolidation/ restructuring opening up new opportunities
- Recovery in mortgage volumes if economic recovery can be sustained

Expect moderate revenue growth in FY11, primarily driven by collections



Asia Business Unit (ABU)

Headed by



EVP, Asia BU
Chandra Iyer

Market Geography



Key Segments



Telecom & Media

BFSI

Revenue Contribution

11%

income from services
(Q4 FY10)

Employees

10,802

as on March 31, 2010

Capacity and Utilization

**8,073
Seats**

as on March 31, 2010

74%

Seat fill factor

Delivery Geography



Industry trends

- Lower tariff plans and the highly competitive environment continues to impact margins of Telcos
- Call Center Charges implemented based on TRAI approval but now under temporary suspension
- Mobile number portability (MNP) on hold due to security concerns
- RBI to grant licenses to new banks for operating in India
- Banks exploring Hybrid delivery models
- New entrants in the Insurance sector

Business outlook

- Right sizing delivery to match current volumes
- Growing with existing customers in new service areas
- Future growth opportunities through improved tele-density and expanded lines of services
- In advanced stage discussions for opportunities in banking
- Exploring opportunities in the Insurance industry

Expect revenue growth to continue in FY11 despite base business contraction



FY2011 Business Outlook



- **Strong growth in Telecom & Media Business Unit**

- Good traction with existing customers both onshore and offshore

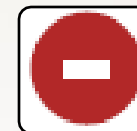
- **BFSI collections business growth momentum is expected to continue**

- **Strong momentum in new business wins in healthcare provider segment**

- **Margin improvement in Asia Business Unit**

- Expect ABU margins to improve on the back of process stabilization and operational efficiencies

- **Improvement in capacity utilization is expected to continue**



- **Currency headwinds**

- Steep appreciation of INR against GBP (27% of FY10 revenues). FY10 average INR / GBP was 76.2
- Appreciation of INR against USD (60% of FY10 revenues). FY10 average INR / USD was 47.7

- **Compression of base business with Telecom customers in Asia Business Unit**

- Lower volumes persisting

- **Full year impact of price reduction in Healthcare provider segment and volume drops in Healthcare payer segment**

- **FY11**

- Expect similar to slightly higher constant currency revenue growth
- Expect improvement in operating margins to continue

- **Q1 FY11**

- Expect seasonal dip in revenue and profitability largely due to collections business

THANK YOU

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