

Firstsource Solutions Limited

Q4 and 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

- **FY2011 Highlights**
- **Q4 FY2011 Highlights**
- **Financial Performance – FY11 and Q4 FY11**
- **Business Outlook**



FY2011 Highlights (1/3)

Financial performance

- **Operating revenue growth**
 - Y-o-Y growth of 4.3% in INR terms and 6.9% growth in constant currency terms
 - H2 over H1 has been fairly strong with 8.2% constant currency growth
- **Operating EBIT margin**
 - FY11 Operating EBIT margin sustained at 9.8%, same as FY10
- **Strong cash generation**
 - FY11 ending cash balance of ~USD 103 mn from USD 50 mn in the beginning of the year

Clients

- **Clients**
 - Closed two landmark banking deals including Barclaycard UK and Axis Bank
 - Largely stable relationships with existing clients

Scale of operations

- **Employees**
 - 26,413 employees as on Mar 31, 2011, added 1,553 employees during the year
 - 848 employees added in India, 705 additions outside India
- **Global delivery**
 - Expanded in UK (added ~500 employees) and Philippines (~300 employees)

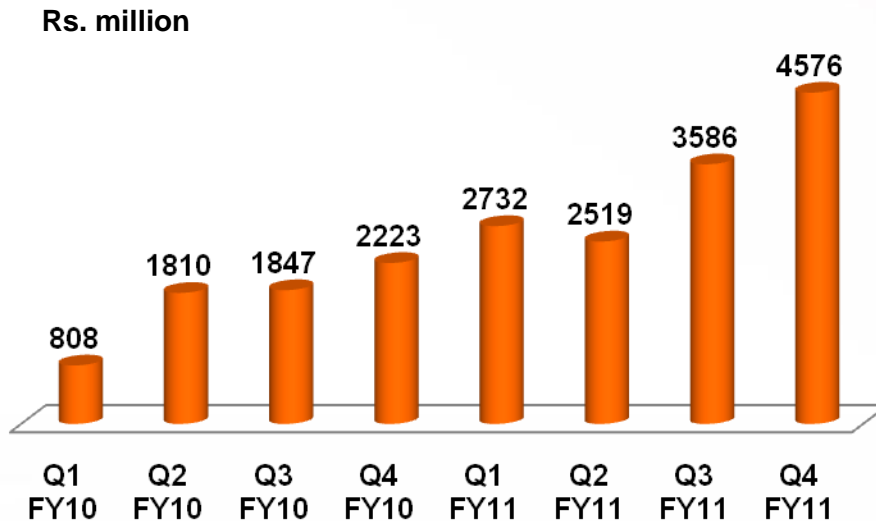


FY2011 Highlights (2/3)

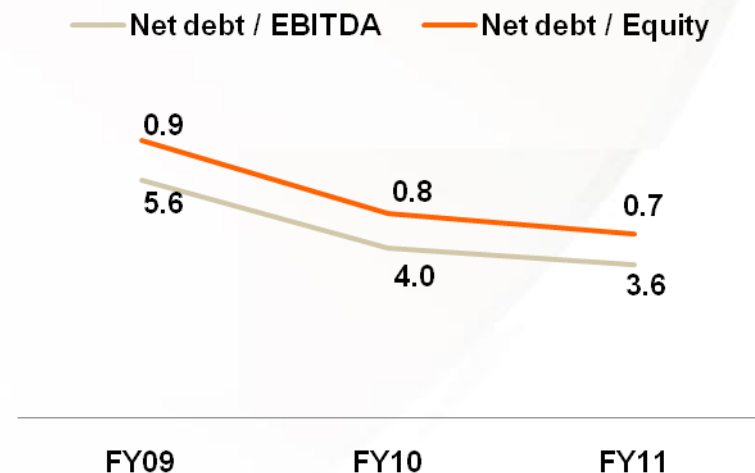
Progress on key initiatives

- **Strategic direction of the business**
 - Completed strategic review of the business and have identified specific initiatives to create sustainable economic value
- **Making ABU a profitable proposition**
 - Improved financial performance driven by operational efficiencies.
- **Building a strong financial position by clear focus on cash generation**

Healthy cash build-up over last several quarters



Strengthening financial position





FY2011 Highlights (3/3)

Significant awards and recognition

- Ranked amongst the **Top 50 'India's Best Companies to Work For' - 2010** list by Great Place to Work® Institute, India
- Firstsource and Barclaycard US Receive Prestigious **Outsourcing Excellence Award** from Outsourcing Center
- Won six **International Quality and Productivity Center (IQPC) Awards** during the year, a testimony of our superior process excellence framework

Challenges during the year

- Protracted decision making cycle and muted volumes with existing customers
- Market specific headwinds in T&M and Asia BU
- Higher attrition

Agenda

- FY2011 Highlights
- **Q4 FY2011 Highlights**
- Financial Performance – FY11 and Q4 FY11
- Business Outlook



Q4 FY2011 Highlights (1/4)

Q4 FY2011 Performance Analysis

- **Strongest quarter in the recent history of the company**
 - Highest sequential revenue growth and operating EBIT margins in past 8 quarters
 - USD 103 million cash position is at an all time high
- **Operating Revenue growth**
 - Y-o-Y growth of 7.8% in INR terms and 8.6% in constant currency terms
 - Q-o-Q growth of 6.2% in INR terms and 6.0% in constant currency terms
 - Normalized for Pipal divestment, Q-o-Q growth of 7.8% in Rs. terms and 7.6% in constant currency terms
 - Strong growth driven by seasonal strength in collections and Healthcare and full quarter impact of Barclaycard UK revenues
- **Operating EBIT**
 - Q4 FY11 operating EBIT margins expansion by 90 bps compared to Q3 FY11; largely on account of
 - Seasonal strength in collections and healthcare
 - Improved financial performance in Asia Business Unit
 - Partially offset by
 - Lower gains on hedges

Q4 FY2011 Highlights (2/4)

Employee Strength

- **26,413 employees as on March 31, 2011**
 - 19,632 employees based in India and 6,781 employees based outside of India
 - Net reduction of 255 employees in Q4 FY11 compared to net addition of 1,759 employees in Q3 FY11 and net reduction of 2,448 in Q4 FY10

Attrition

- **Q4 FY11 annualized attrition (post 180 days)**
 - Offshore (India and Philippines) – 65.9% compared to 54.8% in Q3 FY11
 - Onshore (US and UK) – 33.6% compared to 35.2% in Q3 FY11
 - Domestic – 91.2% compared to 76.9% in Q3 FY11

Q4 FY2011 Highlights (3/4)

Seat Capacity and Utilization

- **Seat capacity of 22,681 seats worldwide**
 - Added 1,553 seats during the quarter
 - 42 delivery centers as on March 31, 2011, compared to 41 as on December 31, 2010
 - Addition of one center in Chennai
 - Seat fill factor at 71% as on March 31, 2011, compared to 75% as on December 31, 2010
 - Average seat fill factor for Q4 FY11 at 72%
- **Capacity consolidation initiative in India**
 - Expect capacity to normalize during H2 FY2012

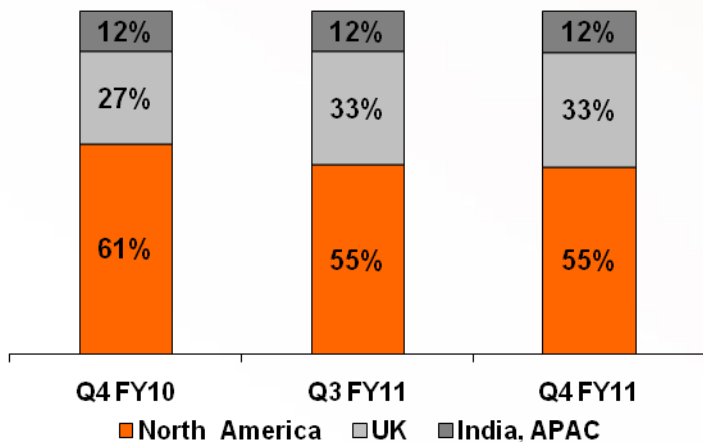
Foreign Exchange Hedges

- **Outstanding FX hedges at \$16 million and £36 million for USD and GBP respectively**
 - **FY12:** 60% USD coverage at Rs. 48 levels and 85% GBP coverage at Rs. 75 levels

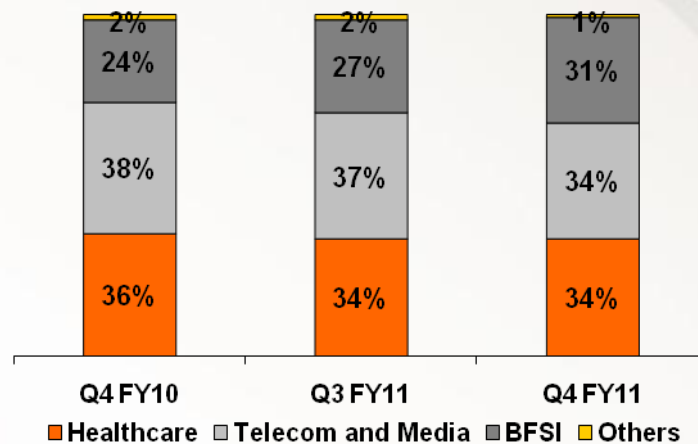


Q4 FY2011 Highlights (4/4)

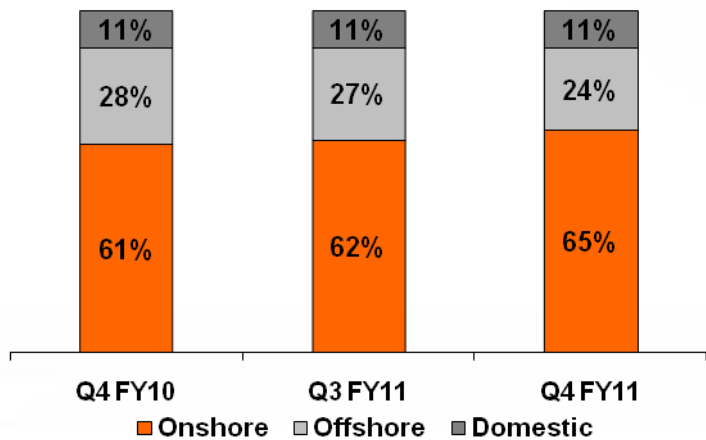
By Geography



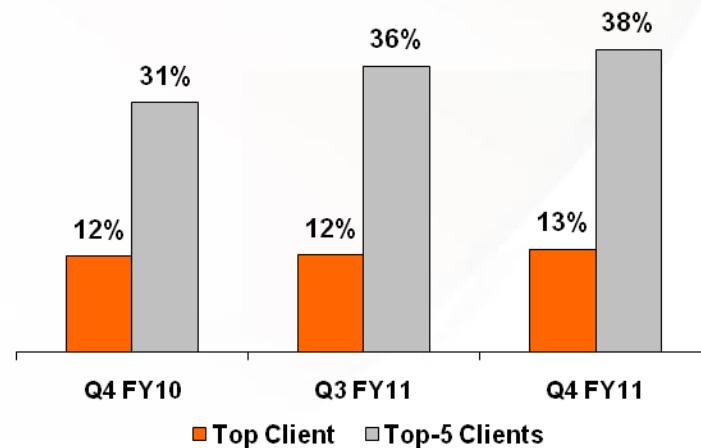
By Verticals



By Delivery Location



Client Concentration



Agenda

- **FY2011 Highlights**
- **Q4 FY2011 Highlights**
- **Financial Performance – FY11 and Q4 FY11**
- **Business Outlook**



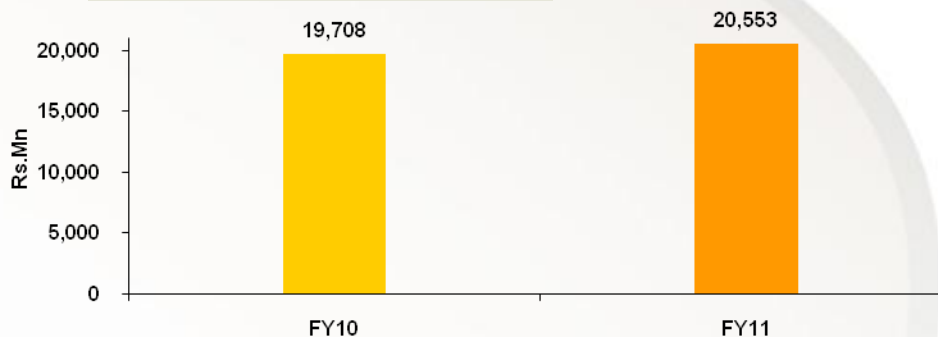


Financial Performance – FY2011

(IN INR Million)	FY2010	FY2011
Income from services	19,539	20,110
Other operating Income	169	443
Revenue from operations	19,708	20,553
Personnel & Operating Expense	16,903	17,657
Operating EBITDA	2,805	2,896
Operating EBITDA %	14.2%	14.1%
Depreciation / amortization	873	891
Operating EBIT	1,933	2,005
Operating EBIT %	9.8%	9.8%
Other Income / (expense)	136	142
Interest Income / (expense), net	(229)	(208)
Amortized (cost) on fair value of FCCB	(115)	(129)
Exchange gain/ (loss) on Foreign currency loan	(111)	7
Extraordinary (expenses)	(84)	(64)
Gain on FCCB Buy back	74	-
PBT	1,603	1,753
PBT (% of total income)	8.1%	8.5%
Taxes and Minority Interest	242	368
PAT	1,361	1,385
PAT (% of total income)	6.9%	6.7%
Reported Basic EPS (Rs.)	3.17	3.22
Reported Diluted EPS (Rs.)	2.84	2.91

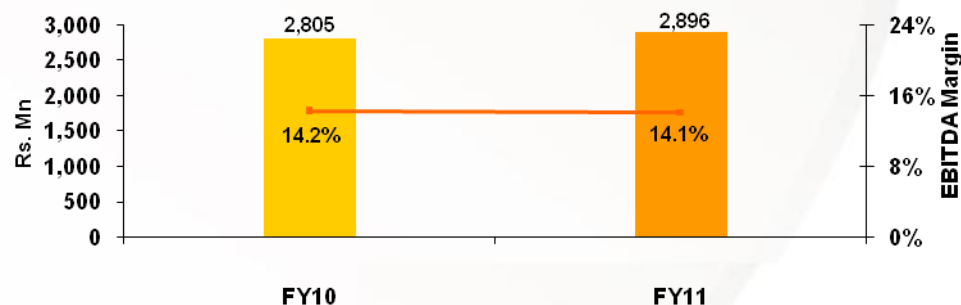
Revenue from Operations

• Up 4.3% Y-o-Y



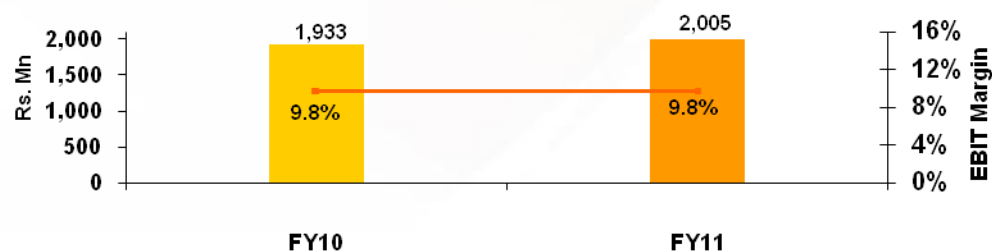
Operating EBITDA

• Up 3.2% Y-o-Y



Operating EBIT

• Up 3.7% Y-o-Y



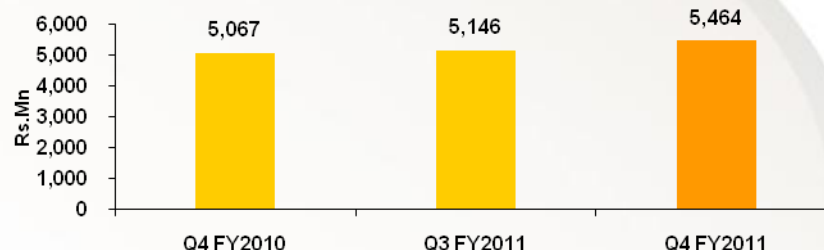


Financial Performance – Q4 FY2011

(IN Rs. Million)	Q4 FY 2010	Q3 FY 2011	Q4 FY 2011
Income from services	5,008	5,048	5,403
Other operating Income	59	98	61
Revenue from operations	5,067	5,146	5,464
Personnel & Operating Expense	4,355	4,435	4,672
Operating EBITDA	712	711	792
<i>Operating EBITDA %</i>	<i>14.1%</i>	<i>13.8%</i>	<i>14.5%</i>
Depreciation / amortization	205	232	233
Operating EBIT	508	479	559
<i>Operating EBIT %</i>	<i>10.0%</i>	<i>9.3%</i>	<i>10.2%</i>
Other Income / (expense)	8	112	4
Interest Income / (expense), net	(73)	(55)	(43)
Amortized (cost) on fair value of FCCB	(30)	(32)	(35)
Exchange gain/ (loss) on Foreign currency loan	(6)	1	5
Extraordinary (expenses)	-	(64)	-
PBT	407	441	490
<i>PBT (% of total income)</i>	<i>8.0%</i>	<i>8.4%</i>	<i>9.0%</i>
Taxes and Minority Interest	51	92	107
PAT	356	350	383
<i>PAT (% of total income)</i>	<i>7.0%</i>	<i>6.6%</i>	<i>7.0%</i>
Reported Basic EPS (INR)	0.83	0.81	0.89
Reported Diluted EPS (INR)	0.74	0.73	0.80

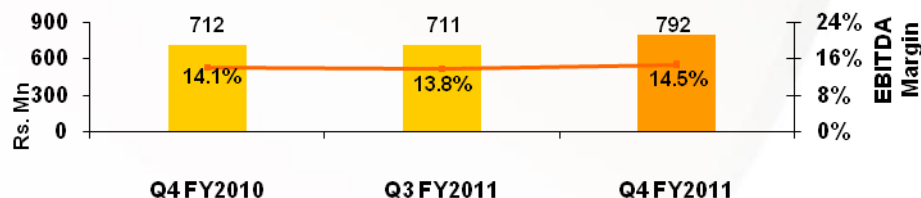
Revenue from Operations

- Up 7.8% Y-o-Y
- Up 6.2% Q-o-Q



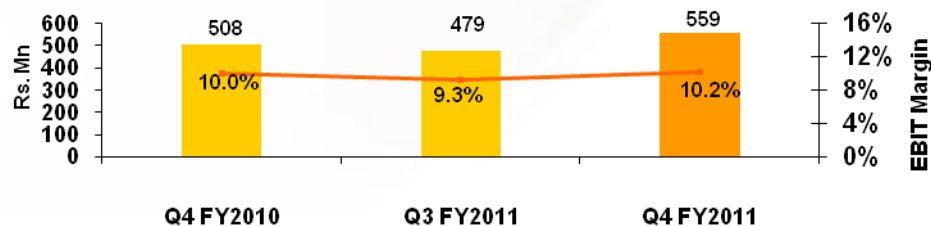
Operating EBITDA

- Up 11.3% Y-o-Y
- Up 11.5% Q-o-Q



Operating EBIT

- Up 10.1% Y-o-Y
- Up 16.7% Q-o-Q



Agenda

- **FY2011 Highlights**
- **Q4 FY2011 Highlights**
- **Financial Performance – FY11 and Q4 FY11**
- **Business Outlook**





Healthcare

Headed by



President, Healthcare/
CEO, North America
Tom Watters

Market Geography



Key Segments



Payer



Provider

Revenue Contribution

34%

of income from services (Q4 FY11)

Employees

2,895

as on Mar 31, 2011

Capacity and Utilization

3,290 seats

as on Mar 31, 2011

70%

Seat fill factor

Delivery Geography



Industry trends

- Medicaid dominates national attention as States look for ways to reduce their budget deficits including possible reductions in enrollment
- Hospital consolidation and private-equity investment activity continue with merger and acquisitions widely expected to accelerate throughout 2011
- Fitch Ratings' 2011 outlook for U.S. not-for-profit hospitals sector is stable with modest credit impacts due to reform and greater merger activity
- Payers continue to post strong profits as they look ahead to understand the impact of insurance exchanges on their business within the context of declining commercial membership and additional Federal oversight of premium increases

Business outlook

- Economy in slow recovery from economic recession; unemployment slightly declines as lawmakers focus on U.S. job creation could resurrect protectionist sentiment
- Payers, as early adopters to healthcare reform, will continue to seek outsourcing solutions as they adapt operations to comply with medical loss ratio requirements
- Providers maintain stringent focus on cost reduction measures and contend with upcoming reform implementations
- Federal stimulus monies, who provided direct assistance to State Medicaid programs by increasing the Federal matching share, ends June 30, 2011, challenging states further to make up shortfall
- Modest growth and stable financial performance in challenging industry and market environment



Telecommunications & Media

Headed by



EVP – T&M
Santanu Nandi

Market Geography



Key Segments

Cable & Satellite Television	Wireless and Mobile
Broadband / Narrowband	Fixed line

Revenue Contribution

24%

income from services (Q4 FY11)

Employees

6,314

as on Mar 31, 2011

Capacity and Utilization

5,383 Seats

as on Mar 31, 2011

67%
Seat fill factor

Delivery Geography



Industry trends

- UK Market is seeing significant and sustained uplift of business interest in Philippines delivery
- “Connected Home” initiative is picking up fast among US telecom service providers
- US based Cable companies are driving innovation with focus on transforming customer experience.
- Overall UK ISP market is witnessing slower growth. However, significant investments have been committed by the industry for Next Generation Networks (NGN).
- Companies are exploring alternatives for transforming existing operational models
- With customer retention as an imperative, companies are looking for partners to achieve better customer experience.

Business outlook

- Presents growth opportunities for Firstsource having existing operations in Philippines
- Opportunity to offer “complex technical help desk” service to our existing clients and new prospects.
- Expected to improve demand outlook for customer support and technical help desk in the Cable industry
- We expect softness in volumes in the near future. However, in the long run, we expect business growth due to addition of new consumers.
- One existing client has decided to pursue captive strategy and will be ramping down over next two quarters. Our strong pipeline will enable us to redeploy trained resources to another client.
- With strong track-record of high-quality service delivery we are engaged in a number of discussions with new clients.



BFSI

Headed by



EVP - BFSI
Sanjeev Sinha

Market Geography



Key Segments



Credit Cards



Retail Banking



Mortgage



General and Life Insurance

Revenue Contribution

31%

income from services (Q4 FY11)

Employees

5,022

as on Mar 31, 2011

Capacity and Utilization

4,213 Seats

as on Mar 31, 2011

72%

Seat fill factor

Delivery Geography



Industry trends

- Interest in outsourcing continues to gather pace in financial services organisation across US & UK
- Due to the need for low cost operations in both processing and customer management, Financial Services are exploring new geographies for voice operations
- Housing market still muted by anticipated interest rate rise and tighter regulation
- In both US & UK markets, the home values and new mortgages are poised to further fall this year amid rising foreclosures and the expiration of homebuyer tax credits
- Organisations in the BFSI space are focussing on strategic alignment, customer satisfaction, and building capability, indicating a shift from focussing on just cost saving

Business outlook

- As activity picks up in UK FS and especially retail banking, given our strong UK retail banking footprint, Firstsource is getting a place at the table for these outsourcing discussions, deal closure will however take time.
- 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 steeply
- Charge off rates are expected to hit historic lows by end of this year.
- Increased pressure on commission rates in collections. However, we expect to continue to gain market share on the back of strong operational performance



Asia Business Unit (ABU)

Headed by

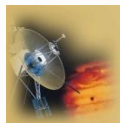


EVP, Asia BU
Sanjay Venkataraman

Market Geography



Key Segments



Telecom & Media



BFSI

Revenue Contribution

11%

income from services
(Q4 FY11)

Employees

11,841

as on Mar 31, 2011

Capacity and Utilization

**9,501
Seats**

as on Mar 31, 2011

73%

Seat fill factor

Delivery Geography



Industry trends

- Strong growth from key telecom players
- 3G adoption gathering pace
- Enhanced activity in the BFSI segment
- Continued growth anticipated in Tier II and Tier III cities in India

Business outlook

- ABU broke even at EBIT level as we exited FY11
- Domestic market growth continues to be robust
- Opportunities available around data services
- Exploring expansion into non-India geographies



FY2012 Business Outlook



- **Strong growth in BFSI to continue**
 - Strong traction with existing customers
 - Collections momentum is expected to continue
- **Revival of growth prospects in Asia Business unit**
 - Stability in Indian telecom industry is helping volume
 - Good pipeline build-up
- **Margin improvement in Asia Business Unit to continue**
 - Expect ABU margins to improve on the back of stabilization and operational efficiencies
- **Strong pipeline in Telecom & Media business unit**



- **Currency headwinds**
 - Strengthening of Indian rupee against USD and GBP
 - Lower rate on hedges as opposed to FY11
- **Near term challenges in Telecom & Media business unit**
 - Lower volumes persisting
 - Ramp down of an existing customer

- **FY12**
 - **Expect higher revenue growth**
 - **Expect improvement in operating margins**
- **Q1 FY12**
 - **Expect dip in revenue and profitability due to seasonality fall-off in collections and healthcare business and near term pressure on T&M on account of client ramp down**

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)

