

Firstsource Solutions Limited

Q4 and FY2012 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

- **Q4 FY2012 Highlights**

- FY2012 Highlights
- Financial Performance
- Business Outlook



Q4 FY2012 Highlights (1/4)

Q4 FY2012 Performance Analysis

■ Operating Revenue

- Q4 Revenues at Rs 6,218 million
- Q-o-Q growth of 7.8% in INR terms and 8.7% in constant currency terms; largely on account of
 - Revenue realized from recent T&M deals going live
 - Seasonal strength in collections and healthcare business
- Y-o-Y growth of 13.8% in INR terms and 5.7% in constant currency terms



■ Operating EBIT

- Q4 FY12 operating EBIT margins at 5.0%, higher by 150 bps compared to Q3FY12; largely on account of:
 - Seasonal strength in collections and healthcare business
 - Cost rationalization related savings
 - Partially offset by lower volumes in domestic business

Q4 FY2012 Highlights (2/4)



Cash Position

- **Cash and cash equivalents** of Rs. 7,629 million as of Mar 31, 2012 (USD 150 million) as compared to Rs 6,537 million in previous quarter
 - Strong cash flows from operations
 - Cash generated from shortening of working capital cycle
 - Availed of post-shipment credit



Employee Strength

- **30,086 employees as on March 31, 2012**
 - 21,601 employees based in India and 8,485 employees based outside of India
 - Net reduction of 35 employees in Q4 FY12 compared to net reduction of 255 employees in Q4 FY11 and net addition of 830 in Q3 FY12



Attrition

- **Offshore (India and Philippines)** . 59.4% compared to 56.4 % in Q3 FY12
- **Onshore (US and Europe)** . 34.0% compared to 37.7 % in Q3 FY12
- **Domestic (India and Sri Lanka)** . 95.9% compared to 88.8 % in Q3 FY12

Q4 FY2012 Highlights (3/4)



Seat Capacity And Utilization

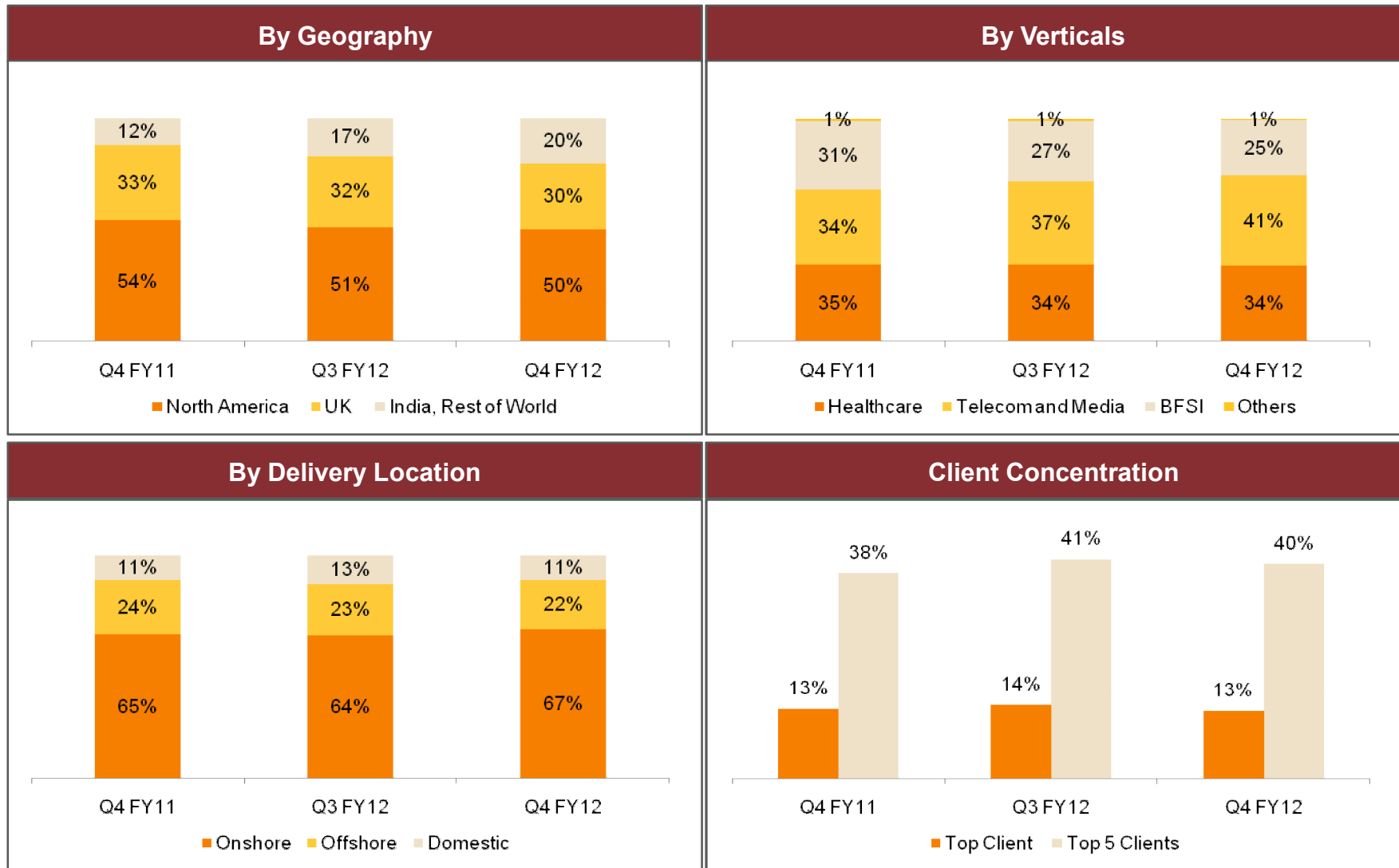
- **Seat capacity of 24,243 seats worldwide**
 - Added 656 seats during the quarter
 - 48 delivery centers as on March 31, 2012, same as on December 31, 2011
 - Addition of one center in UK and reduction of one center in India
 - Seat fill factor at 74% as on March 31, 2012, compared to 75% as on December 31, 2011
 - Average seat fill factor for Q4 FY12 at 75%



Foreign Exchange Hedges

- **Outstanding FX hedges at \$33 million and £49 million and AUD 15 million for USD, GBP and AUD respectively**
 - **Next 12 months:** Overall 93% coverage with covered rates for USD at Rs. 51 levels, GBP at Rs. 80 levels and AUD at Rs. 50 levels
 - **Next 12 – 24 months:** Overall 51% coverage with covered rates for USD rates at Rs. 54 levels, GBP at Rs. 87 levels and AUD at 52 levels

Q4 FY2012 Highlights (4/4)



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FY2012 Highlights (1/3)

FY2012 Performance Analysis

▪ Operating Revenue

- FY12 Revenues at Rs 22,550 million
- Y-o-Y growth of 9.7% in INR terms and 5.8% in constant currency terms
 - Driven by growth in both T&M and BFSI Customer Management
 - Overcame client loss and softness in BFSI collections business

▪ Operating EBIT

- FY12 operating EBIT margins at 4.2%, lower by 550 bps compared to FY11



Context to FY12 Profitability Erosion

▪ Sub optimal organizational structure by having verticalised too far to the right of centre

- Created significant duplication of costs in the delivery and support organizations
- Creation of excess infrastructure capacity. Huge sunk costs without any tangible returns

▪ Challenging environment in collections business

- Lower volumes due to low charge off rates on lower card debt outstanding

▪ A client ramp down in FY2012 exposed the extent and magnitude of cost duplication

- Significant cost duplication in offshore delivery and lower capacity utilization

FY2012 Highlights (2/3)

Business Realignment

▪ Realigned Business Structure

- Verticalisation at the level of Sales, Solutioning and Marketing
- Creation of **Customer Management** and **Collections** as distinct horizontals
- Realigned Customer Management delivery along two broad dimensions:
 - Asia (Asia Business Unit along with India and Philippines delivery for international clients)
 - Onshore Europe & North America
- Healthcare (Payer and Provider) continues to operate as a vertical unit

Clients

- Closed three significant Telecom and Media deals aggregating to over \$160 million in Total Contract Value (TCV)
 - Significant expansion with an existing customer; 3-year deal with incremental TCV of ~\$85 million
 - Entered Europe with an onshore lift-out deal; 3-year deal with TCV of ~\$65 million
 - Added second Australian customer with offshore delivery; 2-year deal with TCV of ~\$12 million
- Entered Sri Lankan market through a joint venture partnership with Dialog Axiata Plc



FY2012 Highlights (3/3)

Debt and FCCB

- Raised \$180 million term loan from the international loan syndication market from a consortium of six financial institutions
- Bought back \$42.6 million face value of FCCBs during the year. Outstanding face value of FCCBs are \$169.8 million
- Ended the year with cash and cash equivalents of \$150 million

Executive Appointment

- Dinesh Jain and Deep Babur have been appointed as Joint Chief Financial Officers with effect from 16th May, 2012
 - Dinesh Jain will be in-charge of Financial Control responsible for Accounting, MIS, Financial Planning & Analysis, Pricing, Tax, Treasury Operations and Procurement.
 - Deep S. Babur will be in-charge of Corporate Finance responsible for Finance Strategy, Fund Raising, Liability Management, Investor Relations and Corporate Development



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- Q4 FY2012 Highlights
- **Financial Performance**
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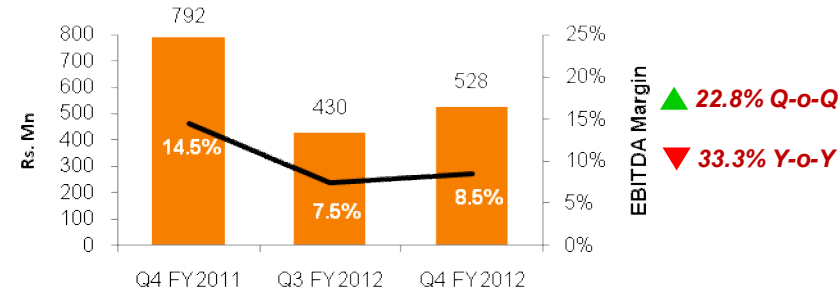
Financial Performance – Q4 FY2012

(IN INR Million)	Q4 FY 2011	Q3 FY 2012	Q4 FY 2012
Income from services	5,403	5,814	6,259
Other operating Income	61	(43)	(41)
Revenue from operations	5,464	5,771	6,218
Personnel and Operating Expense	4,672	5,340	5,690
Operating EBITDA	792	430	528
<i>Operating EBITDA %</i>	<i>14.5%</i>	<i>7.5%</i>	<i>8.5%</i>
Depreciation / amortization	233	230	218
Operating EBIT	559	201	310
<i>Operating EBIT %</i>	<i>10.2%</i>	<i>3.5%</i>	<i>5.0%</i>
Other Income / (expense)	4	6	(9)
Interest Income / (expense), net	(43)	(7)	(14)
Amortized (cost) on fair value of FCCB	(35)	(35)	(37)
Exchange gain / (loss) on Foreign currency loan	5	0	1
Gain / (loss) on FCCB Buyback	-	(71)	(0)
PBT	490	94	252
<i>PBT (% of total income)</i>	<i>9.0%</i>	<i>1.6%</i>	<i>4.1%</i>
Taxes and Minority Interest	107	25	21
PAT	383	69	231
<i>PAT (% of total income)</i>	<i>7.0%</i>	<i>1.2%</i>	<i>3.7%</i>
Reported Basic EPS (INR)	0.89	0.16	0.54
Reported Diluted EPS (INR)	0.80	0.16	0.53

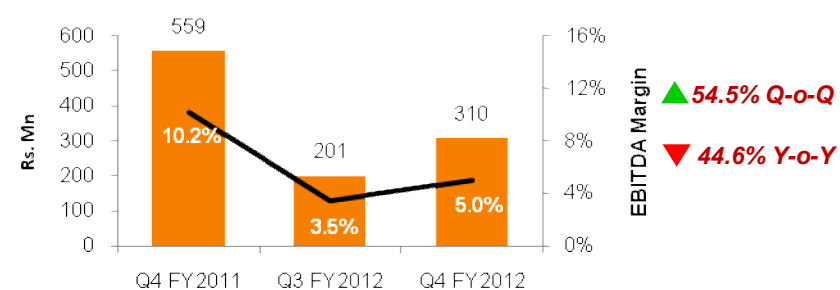
Revenue From Operations



Operating EBITDA



Operating EBIT



Financial Performance – FY2012

(IN INR Million)	FY2011	FY2012
Income from services	20,110	22,549
Other operating Income	443	1
Revenue from operations	20,553	22,550
Personnel and Operating Expense	17,657	20,699
Operating EBITDA	2,896	1,851
Operating EBITDA %	14.1%	8.2%
Depreciation / amortization	891	893
Operating EBIT	2,005	958
Operating EBIT %	9.8%	4.2%
Extraordinary (expense)	(64)	-
Other Income / (expense)	142	61
Interest Income / (expense), net	(208)	(76)
Amortized (cost) on fair value of FCCB	(129)	(144)
Exchange gain / (loss) on Foreign currency loan	7	27
Gain / (loss) on FCCB Buyback	-	(68)
PBT	1,753	760
PBT (% of total income)	8.5%	3.4%
Taxes and Minority Interest	368	140
PAT	1,385	620
PAT (% of total income)	6.7%	2.7%
Reported Basic EPS (INR)	3.22	1.44
Reported Diluted EPS (INR)	2.91	1.44

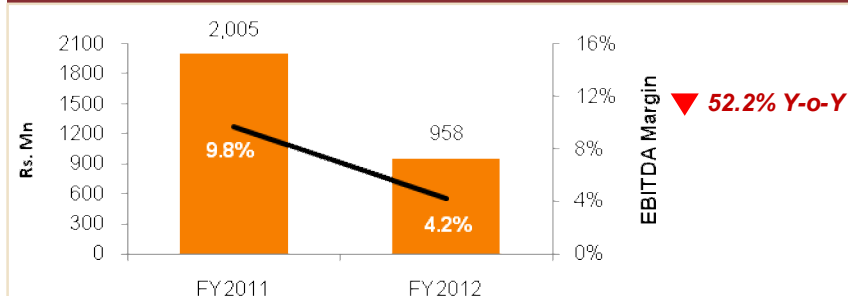
Revenue From Operations



Operating EBITDA



Operating EBIT



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FY2013 Business Outlook

Revenue

“ Strong growth in Customer Management

- Full year impact of recent T&M deal wins (\$160 million TCV)
- Rising volumes from existing clients
- Partially offset by ramp down of an existing customer over the next two quarters

“ Steady growth in Healthcare

- Stable growth in the provider segment
- Witnessing higher traction in the payor business

“ Muted growth prospects in BFSI Collections

Operating Margin

“ Significant margin improvement driven by

- Additional revenues through new deal wins contributing to margins
- Cost rationalization initiatives to drive efficiencies and savings
- Higher rate on foreign exchange hedges as opposed to FY12

“ FY13

- Expect strong revenue growth
- Expect significant improvement in operating margins from FY12 levels

“ Q1 FY13

- Expect flat to positive revenue growth along with marginal improvement in margins despite seasonality fall-off in collections and healthcare business

THANK YOU

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