Q1 FY2011 Earnings Call Transcript – July 28, 2010

CORPORATE PARTICIPANTS:

- Mr. Matthew Vallance– Managing Director and Chief Executive Officer
- Mr. Aashu Calapa – President, HR and Country Manager, India
- Mr. Carl Saldanha – Global CFO
- Mr. Tom Watters – President, Healthcare
- Mr. Santanu Nandi – Executive Vice President, Telecom & Media
- Mr. Sanjeev Sinha – Executive Vice President, BFSI
- Ms. Chandra Iyer – Executive Vice President, Asia Business Unit
- Mr. Mahesh Pratap Singh – Head of Investor Relations

Firstsource Solutions Limited
Quarter One Earnings Conference Call, Financial Year 2011
July 28, 2010

Moderator	Ladies and gentlemen, good day and welcome to the Firstsource Solutions Q1 FY11 Earnings Conference Call. This is Rochelle, the moderator for your conference. As a reminder, for the duration of this conference, all participants' lines are in the listen-only mode and this conference is being recorded. There will be an opportunity for you to ask questions at the end of today's opening remarks. Should you need assistance during this conference call please signal an operator by entering '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Mahesh Pratap Singh, Head of Investor Relations at Firstsource. Thank you. And over to you, Mr. Singh.
Mahesh Pratap Singh	Thank you, Rochelle. Good afternoon to participants from Asia and very good morning to participants in Europe and the U.S. Welcome everyone and thank you for joining us on our earnings call for the first quarter ended June 30, 2010. Please note that the results, fact sheet, presentation and press release has been mailed across to you and these are also available on our web site www.firstsource.com. To take us through the results and to answer your questions we have with us Mr. Matthew Vallance, our Managing Director and CEO,
Mahesh Pratap Singh	Aashu Calapa, President, HR and Country Manager, India.
Aashu Calapa	Hi, morning and good afternoon.
Mahesh Pratap Singh	Carl Saldanha, our Global CFO.
Carl Saldanha	Good afternoon.
Mahesh Pratap Singh	Tom Watters, President of our Healthcare Business Unit.
Tom Watters	Good afternoon.
Mahesh Pratap Singh	Santanu Nandi, Executive Vice President of our Telecom and Media Business Unit.
Santanu Nandi	Hi, everyone.
Mahesh Pratap Singh	Sanjeev Sinha, Executive Vice President of our BFSI Business Unit
Sanjeev Sinha	Good afternoon.

Mahesh Pratap Singh And Chandra Iyer, Executive Vice President of our Asia Business Unit

Chandra Iyer Good afternoon

Mahesh Pratap Singh We will be starting this call with a brief presentation outlining the company's performance in the quarter gone by followed by a Q&A session. I would like to remind you that everything we say on this call, which reflects any outlook for the future or which can be construed as forward-looking statement, must be viewed in the conjunction the risk company faces. A detailed statement and explanation of these risks is available on our prospectus filed with SEBI which can be found on www.sebi.gov.in

With that said, I would now turn the call over to Matthew Vallance, our Managing Director and CEO.

Matthew Vallance Hi, thank you for joining us. I assume you have the presentation in front of you I am looking at Slide 1, I am just going to run you through the first part of presentation and then I hand you over to the respective heads of our supported from businesses who take you through the metrics and the outlook for that organization.

From an overall company perspective on the top line on a year-on-year basis our revenues have increased by 1.3% to Rs. 4,907 million and if you look at in constant currency terms taking out the variation in exchange rates our revenue has increased year-on-year by 6.6%. On a quarter-on-quarter basis, revenues are down 3.2% and again if you look at on a constant currency taking away the exchange variations they are down 2.6% vis-à-vis Q4 last year.

In terms of our operating EBITDA for the Q1 FY11, Rs. 681 million and which is a 2.5% down year-on-year and down 3.5% quarter-on-quarter. You will notice that our percentage of business has been held steady at 13.9% from last quarter to the current quarter.

In terms of operating EBIT from year-on-year our operating EBIT down 0.7% year-on-year to Rs. 468 million and it is down 6.6% quarter-on-quarter. We have had a decline of 40 basis points in our operating EBIT from last quarter to this quarter which is largely due to the fact that we have been adding capacity in certain elements of our business in particular we have added seats in the Philippines and in India to support future growth for the coming year in certain segments of our business.

Turning to Slide 5, actually covered most of the points already in this. As I said we held our EBITDA margins at the Q4 levels at 13.9% and that is in spite of the fact that the Q1 for us is traditionally a relatively slow quarter for us and due to the fact that we do an albeit BFSI segment in the US, we have large amounts of collections work. Traditionally we have a strong Q4 due to the tax rebates, which happened in Q4 of our financial year.

But we managed to retain our EBITDA margins due to operational efficiencies, which kept us and also it is a relatively low level. And the business continues to generate cash and compared to last quarter where we had $50 million of cash on hand, cash and cash equivalents on hand, we closed Q1 with $59 million of cash.

Moving on to Slide 6, in terms of foreign exchange, as we reported previously, we have a policy of hedging; we hedge our revenues, which have cross border elements to it. So those pieces of our business where we bill in dollars and bill in pound sterling and where we have the cost in Rupees or in other currencies. We hedge those revenue streams. And for those revenues we have taken out hedges of $28 million and 26 million pounds.

As far as FY11 is concerned, 85% of our cross currency revenues on the USD are covered under Rs. 47 per dollar level and 75% of our Sterling revenue streams are covered at the Rs. 80 per pound level.

We have had clearly some impact of foreign exchange movement as we convert all of our revenues, large portion of our revenues is not actually affected by cross currency movement as such where we essentially operate centers in the UK and the US and those services are delivered locally, our cost and revenue streams have both in either pounds or dollars. And so when we convert those into rupees, clearly, there is a currency movement affect the foreign exchange on a year-on-year basis there has been some changes there.

Our employee headcount as of end of June is 26,697, we have 18,726 employees based in India and 5,971 staff is based outside of India. We have seen a net reduction that were going to be small number of 163 employees in Q1 and you may recall that in Q4 we had a very large reduction of 2,448 staff essentially were reduced during Q4 last year on account primarily of downsizing in our Asia business unit and that was due to the reductions in volumes of business from clients of ours in India in the telecom sector. In Q1 employee base reduced by relatively small 163 employees and this in a comparison in Q1 FY10, Q1 is of proceeding financial year we added 1,785, so our headcount at the moment is stable.

In terms of attrition we report attrition on an annualized basis, taking into account staff who remain with us for 180 days or more and what we call our offshore base, the work we are doing out in India and the Philippines for our clients in the UK and US we posted attrition figures annualized to 55.4% in Q1 compared to 43.5% in Q4.

In terms of our onshore operations in the UK and the US, our attrition stood at 39.7% annualized in Q1 compared to 34.5% in Q4. We have seen that attrition increase both in India and Philippines offshore operations as well as our onshore operations to a more moderate degree.

And attrition for the quarter in our domestic operations stood at 94.9% and this is clearly a relatively high level and aggravated to some degree by the fact that we have been through a large reduction in headcounts in that business and has been through an operational restructuring process.

Moving on to Slide 7, in terms of our overall seat capacity in our utilization, our seat capacity stood at 20,544 seats worldwide. We did not add any new delivery centers during the period, so our number of delivery center of operations stood at 42 as of end of June. Our seat fill factor at the end of June was 75% comparing to 80% in March. We actually added as I mentioned some capacity to the business, 550 seats in Bangalore and the new location there, we have added 400 seats in Manila, where we see growth in both of these locations for our international business. The average seat fill factor for the quarter stood at 76%.

And we were recognized by the 'Great Place to Work Institute India,' as one of the 'Top 50 Best Indian Companies to Work for'. We are particularly delighted by this support and recognition from the institute.

Moving on to Slide 8 in terms of our mix of revenues, relative little movement across the board here in terms of one of the different cuts by geography, 62% of our revenues are coming from North America, 27% from the UK and the balance is 12% from APAC, obviously, all added to 101%, but that is rounding error, which is very much consistent with the picture one quarter ago in a date to year before.

And by verticals, 38% of our revenue coming from healthcare, 37% coming from telecoms and media and that includes the work we do in the Santanu's vertical, he will tell you about that and also includes the telecoms we work what we do within the Asia business unit. And then 24% of our revenue comes from BFSI and 3% from other sectors including publishing.

Delivery locations business where we deliver from: 62% of our revenues are delivered through onshore operations, 28% from offshore operations, and 11% in our domestic business.

In terms of partnership its very similar to the previous quarter as well. To the client concentration again relatively little movement, there has been some reduction in the percentage of our top client which is we do not believe is significant and there has been some minor volume reduction but predominantly that is due to movements in the currency because that is pound sterling denominated contract. And there have been depreciation in sterling clearly against the rupee.

I hand you now over to the individual business heads to talk through the trends in their verticals as well as the outlook for that business. I hand you over first of all to Tom Watters, who heads our Healthcare Business Unit.

Tom Watters

Thank you, Matthew. And hello again, everyone. The first quarter healthcare contributed 38% to the total company revenues, employees of 2,862, Seat capacity was just under 3,400 with a seat utilization factor of 76%.

In terms of industry trends the US administration has begun the process of implementing healthcare reforms, they have reached out to the payer industry to define the components at the medical loss ratio, medical loss ratio obviously is the amount of healthcare cost, they are actually the amount of healthcare payments that are actually put out in terms of healthcare provision. As a reminder that the reform provisions mandate that insurers not only report medical loss ratios, those medical loss ratios to be no less than 80 to 90 cents of every dollar on the members' healthcare and wellness.

New focus area that has been of considerable interest is that call centers and whether those are classified as administrative costs or medical costs; we expect to draft that definition to be made available within the next few months.

The unemployment rate in the U.S. while it did decreased slightly still reflects slow recovery which we believe will continue to bode well for our eligibility services offering on the provider side. We also believe that there will be a lot of additional opportunities for onshore outsourcing with them in the payer segment.

As a result of reform we also expect to see an increase in consolidation within both the payer and the provider industry, which in turn will drive increased demand for outsourcing. We believe we are well-positioned to respond to these consolidations, as we currently do business with a number of large insurers and a good mix of both for profit and non-profit hospitals in the provider sector.

Moving on to the outlook for our business, payers continue to look for ways to reduce their administrative costs by focusing on enhanced call centers that will provide on call reservations, we are also looking at work flow improvement solutions within the full end-to-end claims management process.

There does continue to be some protectionist sentiment as a result of both high unemployment rate and of course the mid-term elections that are coming in November, creation of jobs based in the United States is a priority for many companies. Given our right-shore model we believe we are ideally positioned to take full advantage of market demand with delivery of services both on and offshore.

On the provider side, hospitals were exploring new ways to improve efficiencies on to decreases in reimbursements we are seeing continued traction in our eligibility services offering as well as increased interest in our full outsource revenue cycle management solutions.

So in summary, the outlook for healthcare remains positive with sustained growth and solid operating performance.

Matthew Vallance

Thank you, Tom. I hand over now to Santanu Nandi, who heads our Telecoms business.

Santanu Nandi

Good afternoon and good morning to everybody. In terms of the telecom business we service, UK, US and Australia are the three English-speaking geographies and the segments that we play in essentially are cable and satellite television, wireless and mobile, internet service providers and fixed line.

Telecom and media vertical contributed 26% to the overall revenue of the company. As of June 30^{th} our employee strength close to about 7,000 which is pretty much close to what it was end of last quarter.

Our capacity utilization is at 78%, which is marginally below what it was last quarter, primarily because of addition of new capacity in the Philippines and Bangalore. And in terms of delivery geography we deliver out of India, UK and Philippines.

Now I will take you through some of the key industry trends and the business outlook coming out of those trends for us. We see that the key market for us both US and UK are coming out of recession and the average revenue per user which is one of the key metric that telecom service providers attract seem to be growing. And that has good implication for us that is helping us in terms of building a pipeline and we now see that on the back of some concerted marketing efforts our pipeline in US is showing new clients.

For the last several months and quarters, the telecom service providers have been looking to reduce churn and they have been offering bundled services and that seem to be working across the board churn reduction and that augurs good opportunity for us. We see that now we will be able to increase our service lines around sales and customer service, particularly, with respect to new channels, which is the web chat.
Some clients' prospects have set very aggressive targets in terms of cost cutting and many of them are actually publicly spoken about their intent to cut cost significantly and this again augurs well for us because it will create increased opportunities for us to provide right shoring solutions to those clients.

In terms of UK broadband market, it is getting more competitive, both Sky and O2 significantly advertising the standalone broadband products and this is a significant opportunity for us. As you are aware that we are servicing three of the large UK broadband providers and we are significantly entrenched in this market segment and we expect to gain from this opportunity, as it is unfolding in the UK marketplace.

Consolidation, which has been a trend in the last several quarters continues to be a trend. As you are aware, T-Mobile and Orange merger has taken place in UK, similarly CenturyLink and Qwest are merged in the US and we expect to be net beneficiary from this consolidation trend.

There is also significant activity in the IPTV market in the UK with intensive activity around BBC approval of project Canvas, dotcom ruling around Sky wholesale their content, increase in their broadband speed etc., we expect that some of the success of files in US which took place in US will actually get replicated in UK market as well through BT and top note growth. And we have a strong presence in the Pay TV market and that eminently positions us to take that opportunity in terms of both in the IPTV market in UK. So overall, we are in a strong footing and we continue to expect growth in revenue and the forthcoming quarters. With that I will take you back to Matt.

Matthew Vallance I will pass on to Sanjeev Sinha. Sanjeev heads our BFSI business and will take you through that sector.

Sanjeev Sinha Good afternoon. In the BFSI vertical at Firstsource, we service clients in credit cards, retail banking, general and life insurance and mortgages. Our clients are in the US and UK and our delivery locations are in India, Philippines and in the US. We have over 3,500 employees and contributed 24% of revenue of Firstsource this quarter. We utilized just over 3,600 seats and have a seat filled factor of 78%, which has come down from 87% from last quarter, primarily, as Santanu indicated because we have added capacity in Bangalore and in Philippines.

I will take you through the industry trends and then we will talk about the business outlook. What we are seeing now is that there is some increase interest in outsourcing and this is primarily because the economy in US and UK has started showing signs of recovery and companies are trying to maintain margins and outsourcing becomes an area of interest. In the UK we see that the large UK retail banks have to some extent settled down on to strategic direction. We also see government-owned banks such as Lloyds, which is a large client of ours, to be on their way to recovery.

Also, in the cards industry which is a big focus area for us. We see card issuers looking at margin expansion opportunities as well as opportunities to reduce costs through outsourcing. Lift outs are very often parts of these conversations where they are trying to monetize some assets. In the UK also the card industry contracting, card issuers are reducing consumer territory, which in the cautious approach to lending continues. Consumer borrowing has dropped in 15 of the last 16 months in the US and the credit card borrowing has also dropped for 20 straight months. So while the economy has started showing signs of recovery there are still some signs that the weakness has not completely been resolved.

Moving on to what is there in for us in terms of business outlook, as banks start to explore opportunities to generate better cost to income ratio they are looking at levers like consolidation, automation, outsourcing and all of these create opportunities for us.

Barclaycard UK has selected us a preferred supplier. We are currently in conversations with them trying to close out contract. And this is again an indicator of increased activity levels in our focused segment areas. As far as validation of the global delivery model that we have talked about where with our large customers we are looking at a global relationship delivering for them for their global needs from our global delivery location.

We are also beginning to see opportunities emerge with banking clients, as they are restructuring plan are completed and as their integration activity is complete, there are new kinds of work that are being talked about and we see those as clear opportunity.

Specifically to collections, we see liquidation rates are starting to improve. And while volumes are some extent tightening we believe that this segment of our business still gives us opportunity for growth.

In mortgages, especially with our existing client, we see that there is a combination happening in terms of the mortgage systems specially on the origination side and again also on servicing and these would have some risks but would also give us opportunities to expand the kind of work we do for our client.

So all in all, the outlook is improving, the economy is improving, our clients and prospects are more confident in terms of talking about outsourcing and there are some major deals that we are talking to prospects and hoping to close over the next few months. Thanks.

Matthew Vallance

Thank you, Sanjeev. And I will hand you over to Chandra Iyer who heads our Asia Business Unit.

Chandra Iyer

Good afternoon. On the Asia Business Unit, we largely serve the domestic market in India and we do some piece of work for Sri Lanka. The key segments we serve are the telecom and media and banking and financial services segments. We have contributed about 10% of the company's revenues with a 10,700 strong employee base. We use about 8,261 seats and our seat fill factor is at 71%. We deliver all the services out of India.

In terms of industry trends, telecom is one of the largest contributors to our business and industry in the telecom sector has seen a lot of activity, there is huge amount of spectrum in license buying that has happened on the 3G, etc., in the last quarter. And this obviously has impacted the telecom companies. This also means they will be offering future services in the data and other areas. M-Commerce is something that we see in all the banks and the telecom companies are looking at this as a future way of doing inclusive banking and that is a big area of opportunity which we see happening that they converting into an opportunity.

The base business shrink, which started in the earlier quarters continued and more or less is now stable. Although the subscriber base is increasing from hereon we should see that as a trend on the positive side. There are large amounts of interesting expense by large players both from the IT and the BPO in the domestic market which erstwhile was not something that all of you were focusing on.

We are at the conclusive stage of a new deal in the banking sector and we believe this deal will enable us yield growth in future, which is an area of focus for us to grow the banking and financial services sector. The IRDA which is the regulatory in the insurance changing the rules and the regulatory environment change as a result of which huge opportunities in the insurance sector which turns the large big ticket kind of opportunity seem to be emerging.

Our existing customers in the telecom sector continue to offer other opportunities of business lines with them and we see this continuing with us particularly in the future with data services and beyond.

The business which has been cash positive as an outlook to become EBIT positive in this year. And overall, despite base business contraction we expect to see ourselves keeping in the positive trend. Thank you.

Matthew Vallance

Thank you, Chandra. So all in all we have had an encouraging Q1 where the performance has been very much in line with our expectations from a revenue and profitability point of view. We are making progress in each of the individual businesses and we are on track to achieve similar to slightly higher constant currency revenue growth for the year and we are on track also to improve our operating margins. And as move into Q2 we are expecting our revenues to be stable and we are expecting some improvement in margins and we are expecting further growth in H2 in the second half of the year and our revenue growth will be back ended towards second half of the year.

So with that I just like to hand it back to the moderator and invite you to ask questions.

Moderator

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan Ramachandran

Hi. Matthew, I just wanted to kind of get your views of what you are seeing in the market at this point in time and as the new CEO what would be your top three priorities for Firstsource, maybe over next 18 months timeframe?

Matthew Vallance

Sure. Thank you for that. I think in terms of our priorities year and a half ago we verticalized the business, so it is not we are not going to be offering to offering to people, we were going to attack certain market sectors and our success would come from being focused organization, so we decided that the segments that we felt were most promising to us the vertical segments is telecoms, healthcare, what we call, BFSI, Banking, Financial Services and Insurance and also as you know nascent Business Unit which is a geographic unit with the Asia Business Unit. But it is going to be very critical for us is to make sure that we build on with the successes what we see in that exercise and derive domain knowledge in each of those sectors.

And what I was saying was that the process of verticalization embarked upon a year and a half ago, remain very important for the future. It has given us focus, it has given us accountability, we are now starting to see more domain knowledge where we can bring more value to our clients by bringing propositions more relevant to those businesses and if anything we will have to become more focused than we are. So if you look at banking, financial services and insurance, alone is a very, very large market and within BFSI, we will be picking out segments, we believe we can really compete and win. For example in the card space, that is credit cards and debit cards, we are developing a strong proposition that includes a number of different process areas and we are looking to sharpen our focus within areas where we are competitive, have a strong value proposition. That really is the key priorities for the organization at this point in time to remain client focused, client domain knowledge, propositions to our clients very well addressed.

Srivathsan Ramachandran

Just wanted to kind of get some sense on how the last quarter, the quarter gone by was in terms of new logo additions, bookings in terms of pipeline, how would you compare vis-à-vis the previous quarter, what are the relatively promising verticals in terms of booking or a new logo for Firstsource

Matthew Vallance The pipeline as a whole remains relatively constant from quarter-to-quarter. We have won business in financial services, we have won business in the healthcare area, we have one business line existing clients in Asia Business Unit, so we see traction across the units, and we see that our growth in the telecom sector is going to be more loaded towards the back end of the year. BFSI has showed more traction than we expected at the start of the year and in the healthcare segment, we are seeing more traction in the payer area, provider because it is also looking healthy from a pipeline perspective.

Srivathsan Ramachandran Okay. Just wanted to get your thoughts on the India Business Unit, you had couple of senior management also, just wanted to know if it is going to be even more major focus area in terms of growth or is it more to kind of replacement hire? There are two senior management hire announcements also over the last quarter.

Matthew Vallance No. I think we have made one senior appointment recently. Dr. Shalabh Jain and he has joined in a senior operating role in the Asia Business Unit and we see an important segment clearly it is an area of good future growth. As we reported before in our Asia Business Unit we have been through a restructuring, we do a lot of work in the retail telecommunications area, mobile operators. As you will be aware in India it is a highly competitive market and the competitive nature of the industry has really driven down volumes in our Asia Business Unit across those clients and as a result of that, as we reported in last quarter we reduced our headcount quite substantially so we are growing again but on the basis that something the company has done that, in addition we are looking at in terms of our sales effort we are expanding outside of telecommunications, particularly, we are looking to leverage our expertise in BSFI and cap in through the banking, financial services and insurance markets in India. We already do work in those sectors. I believe this is increasing activity in the insurance sector and some of the other parts of BFSI, banking for example. And that is an area of focus for us. We may look into the government sectors an area that we are considering at this point of time and if we want to enter that market, how do we enter it.

Srivathsan Ramachandran And just one last question, any wage hikes has been given during this quarter, if not what is the plan on that front?

Matthew Vallance I let Aashu Calapa, Head of HR for that question

Aashu Calapa Yeah, we, we did salary increase for associates, these are employees who work on the shop floor in India and that happened effective 1st April.

Srivathsan Ramachandran And what about the others?

Aashu Calapa What we do is, we follow a certain pattern so, you know, certain category of employees get an increase in April, another set of employees get an increase in July and the senior management team gets its increase in October, so what we have essentially done is we have essentially, in a sense spread the impact across three quarters.

Srivathsan Ramachandran Okay, thanks, I will come back later.

Matthew Vallance Thank you.

Moderator Thank you Mr. Ramachandran. Our next question is from the line of Mitali Ghosh of Bank of America. Please go ahead.

Mitali Ghosh Yes, hello good afternoon. My question actually was relating to the employee attrition which has been moved up very sharply this quarter, you know, if you could help us understand the trend there and you know what you are really expecting going ahead?

Matthew Vallance Sure, I will let, Aashu answer that question

Aashu Calapa Yeah, Mitali, this is Aashu here. We declare attrition in offshore US, UK and in the ABU market. If you look at US, UK market, these are annualized numbers, so if you look at the increase between the Q4 and the Q1 you know, in terms of monthly average it amounts to 0.4%, so not much of a change over there. In the ABU business what happened is you know, we did a fair amount of downsizing in Q4 and all of you are aware you know when we do downsizing, the effects continue and what we have seen is that some of the effects of the downsizing have continued in the Q1 and you know I would also like to point out that in the Asia business with volumes fluctuating we actually find that the need of the hour is actually to have a very flexible manpower, so when the volumes go up, you want to quickly bring in people and then the volumes go down you need to quickly reduce the number of employees that you have on board so while we are very concern about the attrition in this business but right now the high attrition is actually in a sense allowing us to maintain the flexibility in the manpower that is required and that's the issue with the Asia Business Unit.

On the offshore business this is where we are really concerned you know, it has gone up by, it is gone up from 43.5% to 55.4% and that is about 1% per month and then this is where we are really concerned and there is a lot of effort that we are putting in to bring down this attrition significant part of the supervisory and managerial bonus is now linked to attritions. There are a lot of projects which have got launched and there is a governance structure which has been put up both at the corporate level and the vertical level to ensure that these projects get done so you know, there is a lot of focus on this, this is not a short term fix, you know, I have said this before this is a medium term to long term fix, we are very concerned and then we are trying our best to sort of in the medium term to long term we expect to bring these numbers down.

Mitali Ghosh And just a follow up to that, you know, what has really driven this increase in attrition because you know, IT, we have seen a huge boom in hiring, but I am not sure we have seen quite the same uptick in BPO yet? And secondly what is the time typically taken to hire and train?

Aashu Calapa Again Mitali let me answer that in two parts. If you look at the ABU business, a lot of our centers are in Tier-2 and Tier-3 locations, so these are typically locations, such as Jalandhar, Siliguri, Vijayawada, Trichy, so point number one is we downsize in these locations and there was some lingering effect in the 1st quarter. I think point number two is, you know it should be noted that in most of our Asia Business Unit we have a six days a week, we find that a lot of youngsters that we hire in Tier-2 and Tier-3 towns are not used to, point #1 not used to a corporate culture, point #2, not used to working six days a week and hence we tend to lose a lot of people because of stress. Having said that I have got to mention over here that hiring in the ABU business is not that difficult. We are in 14 different locations and if my capacity on an average in each of those locations is 300 then one can actually recruit close to 2,000-2,500 people a month, so hiring is not really the issue, retention is an issue but like I said earlier right now the high attrition is actually helping us maintain a flexible workforce, flexible in terms of the volume that come in. On the offshore side, to some extent it is seasonal. End of the financial year is when employees sort of stop and ask themselves whether they want to continue or whether they want to move on. So we also do our salary increases in April in India. And this is the time when some employees decide to move on. We have also seen an increase in terms of hiring from competition. Now, a lot of this is captives may not be third party, but we have seen a lot of hiring by the captive centers so we also lost associates to competition. I would like to mention over here that a big concern is at the associate level. Our annualized rates for executive and above is 10% so attrition is not really a concern at the executive level and middle management level but we are concerned about attrition at the associate level and like I said this is something that we are very focused on. Unfortunately, this is not going to be a short term fix, this is going to be a medium-term fix.

Mitali Ghosh Okay, thanks. And just one second question in terms of, Matthew, you mentioned that one of the key priorities is to sharpen focus bit in within the verticals, you know market access. In that context we are just wondering do you feel you need to invest more in sales and how you are really thinking in terms of sales force any sort of further structuring within sales?

Matthew Vallance Yeah, I mean we have been investing more in sales over recent months and quarters and we will continue to do so. We have invested quite heavily also in relationship management. We have been hiring a number of senior executives to manage relationships with our larger clients because it is also as much as our sales and marketing is about adding new logos, it is all about driving more from our existing accounts in terms of deep into the relationship, widening the portfolio of services that we sell into those account, so yeah, we will, very much be looking to sharpen our focus on the sales, marketing, client management so that we can drive the business growth.

Mitali Ghosh Sure, just if I may, what is the size of the sales force in terms of including the client relationship manager?

Matthew Vallance Let me just get that number for you because essentially our sales teams are embedded within the different verticals. Our healthcare business for example the nature of that business is that we tend to secure large number of smaller size deals and we tend to have a different part of workforce in our business in another area, so it tends to less highly paid sales staff in greater number than in other parts of our business. So if I look at it, I studied by geography, we have a number here, in terms of our sales-sales support staff, this is not broken down by business units, this is broken down by geography. We have a total of 87, that has gone up from 78 in the previous quarter, so you see we are adding to our sales force. In the US excluding our healthcare business we have 15, in the UK we have 19, in our healthcare provider business we have 27 and in India we have 26. So total strength of 87 in sales and sales support employees, which is up from 78 in the previous quarter. And India number, when I talk about India headcount, I think we have quite a few of our sales support people based out of India, they are supporting our international sales force obviously, a cost effective way of running the business.

Mitali Ghosh Sure, thanks, that was helpful, and just one question on, you mentioned second half should see good ramp happening you know how much visibility do we have into that, is it dependant on some of these wins that you are expecting on banking and in Asia Business Unit or you know is a lot of the transition already in place I mean ongoing?

Matthew Vallance It is a mixture, some of the business is already signed and operational delivery pipeline. Some has already signed and where we are building up and delivering but there are other elements which are second half numbers which are subject to deal conversion.

Mitali Ghosh Okay, sir one last question from me. In terms of margins for the full year are you still on track to sort of expand that margin for the full year basis?

Matthew Vallance Yeah, we are still on track to do that, we expect to expand our margins somewhat so as what we did last year.

Mitali Ghosh Sure, thank you very much.

Moderator Thank you Ms. Ghosh. Our next question is from the line of Ankit Shah of B&K Securities. Please go ahead

Ankit Shah Good afternoon sir. Significant lead in the promotion of onsite revenues despite there has been a drop in the onsite employees. So has there have been some pricing hike that we have account in onsite business?

Matthew Vallance There has been no pricing increase accounting to what you are referring.

Ankit Shah There has been an increase in the onsite revenue still the count has been lower as compared to last quarter. So any other thing that has been…

Matthew Vallance We just try to look at that, something we have observed actually, but we will just take a look at that, and we would come back to you in a while. We will take another question and we can come back and we answer towards the end of the call.

Ankit Shah Sure sir, secondly, you are saying that most of the growth for FY11 would be back ended in the second half and this business is seasonally weaker in the third quarter so what we are expecting is a major kind of a growth in the last quarter and the most of the growth that will drive for this year will be coming from Q4.

Matthew Vallance See, you got to bear in mind that there will be growth in Q3, Q4 but you got to bear in mind that if you take out the currency movement and look at Q1 over the last Q1 with 6.6% up so there is an inherent growth in that so I don't think you should consider over growth is coming from Q3, Q4.

Ankit Shah Okay, and sir, like in the domestic business we have been rationalizing our employees due to the lower volume what we have but still in this quarter we have added seats in the domestic business, any specific reason?

Matthew Vallance No, we haven't added seats in the domestic business.

Ankit Shah You have added around 200 seats in this quarter.

Matthew Vallance: Yeah, I think that one accounted some reconfiguration of the operation so we have some additional seats as part of the restructure, and fundamentally we are not adding capacity into our domestic business, where we have added capacity is our international business, so we have added seats, added ~1000 across Bangalore and Manila to support our international business. And of course the seats between our segments are not always completely fungible from one area to another so what we may have seats in Trichy but it doesn't mean that that is going to be suitable for the work we are delivering to clients in the international market for example.

Ankit Shah Right. And why has there been increased quarter-on-quarter by 200 seats for the ABU part, you said there is some restructuring happening.

Matthew Vallance I just, I will let Chandra explain that.

Chandra Iyer Yeah, hi. See, we have a small increase of about 180 seats and this is from a location which we were originally serving for international. We are growing our potential banking opportunity for which we have aligned the seats that ramp will happen in the coming quarter.

Ankit Shah Okay, so this will be for the new vertical that you are adding on the domestic business?

Chandra Iyer It is not a new vertical, it is an added business which will be delivered out of a particular location for which we have got some seats we allocated and getting it ready.

Ankit Shah Okay.

Mahesh Pratap Singh Ankit, Mahesh, on your question on onshore revenue, I think you are looking at percentages, both percentage is on a different revenue base so if you look at absolute number of onshore revenue it has come down

Ankit Shah Okay, okay, fine, thanks for that. And regarding seat fill factor what you are saying that is last quarter that we were operating at around 80% of seat fill factor?

Matthew Vallance Yeah.

Ankit Shah And if you have done a leverage of moving up till 85 but this quarter we have seen a decline of around 500 bps.

Matthew Vallance We expect to improve the seat fill factor as the year goes on till we expect to do that.

Ankit Shah So this will have the leverage of increasing the seat fill factor in 2010-2011 again 85%?

Matthew Vallance Current levels are around 75% level and we are looking to increase that up to mid 80s.

Ankit Shah Okay, I got a couple of book-keeping questions. What is the dollar revenue for the quarter?

Mahesh Pratap Singh Average rate for the dollar for the quarter was about 45.7, Ankit.

Ankit Shah 45.7 and what is the Capex plan for the year?

Krishnan Akhileswaran The Capex plan for the year is what you are saying Ankit?

Ankit Shah Yeah, Capex plan.

Krishnan Akhileswaran Roughly $12 to $15 million is the Capex plan for the year.

Ankit Shah 12 to 15 million dollars. And this would be basically on increase capacity or how would you Capex would you expect, what would be the ongoing kind of Capex and the new Capex that we are planning?

Carl Saldanha You are right, there will be new capacity additions in the UK, which we will be planning during the course of the year.

Ankit Shah Okay, and what are the outstanding ECB loans on the books right now?

Krishnan Akhileswaran Outstanding ECB loan alone you are saying?

Ankit Shah Yeah.

Krishnan Akhileswaran Or are you talking about the FCCB or ECB?

Ankit Shah No, I am talking of ECBs?

Carl Saldanha The ECB loan at this point in time outstanding is around $26 million.

Ankit Shah $26 million

Krishnan Akhileswaran The other term loans that we have in the books other than FCCB is around $33 million.

Ankit Shah Okay, okay and lastly regarding the tax rate like this quarter has been around 19% odd kind of a tax rate so are we expecting similar kind of tax rate going forward for FY11?

Krishnan Akhileswaran Yes, we are expecting a similar tax rate going forward as well, because you know, there are some components of STPI fall off, etc., which is resulting in the increase in the tax rates.

Ankit Shah And any kind of indication for the tax rate for the next year that is for FY12?

Krishnan Akhileswaran Not at this point in time. Because, you know there is the DTC which we are expecting and out of that there will be some fall out, so we don't have any guidance at this point in time for the next year.

Ankit Shah Okay, thanks a lot.

Matthew Vallance Thank you.

Moderator Thank you Mr. Shah. Our next question is from the line of Madhu Babu of Systematix Shares. Please go ahead.

Madhu Babu Yeah, hello sir, is attrition in the BPO industry related to the nature of work I mean is it like voice based services have higher attrition component and whereas non voice and platform-based BPO have a lower attrition component?

Aashu Calapa Yeah, that is right, that is right, you know, typically I think NASSCOM characterizes this, it is called CIM Customer Interaction Management, so you typically see the Customer Interaction Management sector typically the attrition rates tend to be higher, that is right.

Madhu Babu

Sir, presumably our attrition is around 55% LTM for offshore, so are we in a mode of transitioning, are we trying to transition more of work into like non-linear revenue streams or say a platform BPO which has been the buzz word in the industry of late?

Matthew Vallance

Yeah, I mean in terms of platform BPO is something the whole industry is currently interested in, I think that is something that we are looking at, I mean we do use our technology platforms in certain parts of the organization but it is not our immediate plan to roll out, say, what we call our platform based offering. And in fact the platform BPO has had a somewhat checkered past. It is in another term many people in the industry are looking towards it as being the future but I think that the transition of this industry from where it is today to a platform based industry is still very long away. You will see platform BPO into the niche areas, but you would not see what wide scale adoption because many of the things we do for our clients, we are using their core platforms and they are in no hurry to turn that platform over to a third-party because their core system. So you will see platform based BPO more in areas where the system, the process itself is non-core and the client happy to turn out system over to a third-party.

Madhu Babu

Okay sir. Sir and what is the kind of growth rate we can expect for the company, is it like a high single digit growth rate, because attrition is posing a big challenge and considering that we are more on a linear based model, so how should I view the company in terms of revenue growth prospect?

Matthew Vallance

Well, we expect to see growth to be similar to what we had last year, if not a bit higher. And in the future we see the industry as being a potentially high growth industry. We see that the markets that we operate in are essentially going through a lot of change and they demand more cost efficiency and tighter management more operation efficiency, we see that there is a general trend towards outsourcing more activity and we expect to have good growth in the future. And even offshore we believe that business process offshoring has still a long way to run and we are not put off by this question which has been a linear or nonlinear paradigm.

Madhu Babu

Okay, okay and how is the pricing trend in the industry currently?

Matthew Vallance

Pricing, we have in the last couple of years, the economies in the US and the UK have been through rough patch to say the least and there has been pressure on pricing across many of our verticals but we see that has started to alleviate now, clearly, it is a competitive industry but the pricing reductions that we saw over the last couple of years we do not see that to continue that kind of level and in fact in many of our contracts we have price increase mechanism so we were able to index up our prices based on inflationary indexes so pricing compressions that we saw in the past is more or less behind us, where we can willing that sort of prices, but of course we focus very strongly on the operations make sure we can drive down cost as far as we can.

Madhu Babu Okay, and final question considering that it is a very highly competitive industry currently, sir, do we see consolidation in the near term or it will take some more years for this to happen?

Matthew Vallance You mean consolidation of?

Madhu Babu Consolidation, M&A and consolidation-related, mergers and acquisitions happening within the industry.

Matthew Vallance There could well be a consolidation, it is not something that unduly concerns us, our objective is to make sure that in the areas where we do business we are one of the top players, I think that is quite within our size in the areas that we operate within and many of the segments that we are operating we are one of the top players and that is the way we intend to continue. There may well be consolidation happens in the industry level.

Madhu Babu Okay sir, thanks.

Moderator Thank you. Our next question is from the line of Oliver Spoor of Exane. Please go ahead.

Oliver Spoor Hi, good afternoon, thank you for having me. Just one thing to know whether you could quantify the pipeline dimension from new contracts for Barclay account or other in the BFSI industry, could you give a number on that for the next quarter?

Matthew Vallance We have not quantified our pipeline, we look at our pipeline across different segments that we operate in, but it is not something that we would mention in public at this point in time. The pipeline is relatively robust. It is pretty much similar to pipeline which we had in Q4 in terms of overall size of the pipeline.

Oliver Spoor Alright and then in terms of the restructuring of Indian operation, whether you are done with it or it is…

Matthew Vallance We completed the restructuring and one of the things we have been doing there is making the individual operating centers more accountable for everything within them rather than rely on shared operations from other centers. We have restructured things so that the individual centers have a greater level of accountability and that restructuring is completed and we expect to see that pay dividends in terms of improved margins as we go right from Q2 to Q3 to Q4 as we go through year we will see margins improve as a result of that.

Oliver Spoor Okay and just one last question, the cash and cash equivalents are around $60 million of the cash and cash equivalents, do you repatriate into rupee or it remains in local currency in dollar and pound?

Carl Saldanha We have some cash in US, some in the UK. But we have a large part in India where we have invested in short term mutual fund.

Oliver Spoor Alright, thank you.

Moderator Thank you. Our next question is from the line of Deven Sangoi of Birla Sun Life Insurance. Please go ahead.

Deven Sangoi Hello, good afternoon. I just like to know two things, how do you see the cash generation out of your business and how do you take care of your FCCB obligation which is coming in 2012?

Matthew Vallance From a cash perspective as we mentioned earlier we have got $59 million of cash and cash equivalents which moved up from 50 in the previous quarter so the business is fundamentally cash generative. We expect it to continue that way. And the business is generating cash at a good rate each quarter. The FCCB as you point out is due to maturing in just under 2½ years. It was a five-year bond and by that point we believe without doing anything else we believe that we will be in a strong financial position from the cash perceptive to be able to easily refinance the amount.

Deven Sangoi Assume if there is no refinancing available, you can still be able to generate that much cash to pay off all your FCCB?

Matthew Vallance We would not generate cash to pay off the full amount but we expect our cash flow will be able to pay off half of the outstanding and this should be relatively easy based on our cash flow at that point in time to refinance the rest.

Deven Sangoi	Right, and if you see the growth coming back in the business on the second half would you like to incur Capex or you are already through with the Capex or you can sustain without doing Capex for at least next 12 months?
Matthew Vallance	Yes, we are expecting to spend $12 million to $15 million of Capex this year and on that basis we have made our projections.
Deven Sangoi	First quarter if you see there is a if I net of cash the debt is almost flat, okay so end of the year you will see obvious reduction in debt?
Matthew Vallance	Yeah.
Deven Sangoi	You mentioned that second half is going to be very good for you and second quarter is going to be lull, so what is the reason for the second quarter to be
Matthew Vallance	We have seen something of a delay in some of the businesses particularly in our telecom segment, as we have seen the business coming in with slower profile than we would have expected. It is not coming in quite as we have expected time that to do in our projections. So the business from that segment in particular is coming a little slower. Having said that we have got a good outlook for Q3 and Q4 in the telecom segment and some of the other segments as well.
Deven Sangoi	Sure. FY12, how do you see the overall company growing since you will have a momentum carrying and how do you see the healthcare doing in the next six quarters with the US Healthcare reform being implemented?
Matthew Vallance	We are not projecting too far but the Healthcare reform is essentially, I would like Tom elaborates on it in more detail if you need, but essentially the reform will start to affect us over a period of a number of years. It is going to take some time to get fully implemented. But in terms of dynamics of play-offs, for example that the healthcare issuers will be forced to bring their cost under control and that will drive outsourcing and probably drive offshoring as well and we will see more people enrolling into the insurance programs, so more people will come out of the uninsured area into the insurance programs and again that will play to our strength in the payers' space since there are volumes of people who are making insurance claims. And on the provider side of the business a large amount of what we do is enrollments into Medicare and Medicaid and one of the key ways in which the government is going to get more people to have health coverage in the US is by allowing more people to enroll in the government funded

programs. So we think that will also drive volumes on the provider and our business.

Deven Sangoi When do you see the impact of that, timing wise when do you see, it will be post December, post next financial year 2012?

Matthew Vallance You are talking most of this will started by couple of years from now. Tom is going to elaborate on that.

Tom Watters Yes, obviously there are immediate opportunities that we have within the healthcare vertical as a result of healthcare reform. I need the thing to keep in mind is that we are on the heels of a pretty significant economic downturn and what we are seeing within the healthcare vertical is we saw an increase in price compression, some internalizations in the marketplace in FY10, those are obviously going to continue to flow through FY11. On a go-forward basis, we are seeing great traction in the business on both sides of the vertical. We are not seeing the drag on base revenues such as price compression and in internalization in this current fiscal year that we have seen in the past and therefore we think that once that churn is back much which was out of the system primarily in FY11 we will see much favorable growth prospects in FY12.

Deven Sangoi Sure. So second half in 2012 will be a continuous momentum for the business?

Tom Watters That is our expectation. Yes.

Deven Sangoi Sure. Thank you very much.

Moderator Thank you, Mr. Sangoi. Our next question is from the line of Pankaj Chopra of Shanti Asset Management Corporation. Please go ahead.

Pankaj Chopra Sir, I just wanted to understand some new strategy or inorganic growth there were reports you are looking at acquiring some businesses. Is that correct and if it all is there a size do you foresee of such an acquisition?

Matthew Vallance We are not in a hurry to do an M&A at this point in time. That does not mean so enduring in the next couple of years but this is not an immediate pressing priority. The M&A that we do will be more around tuck-in size acquisitions that fill out our value proposition to add capabilities into complement our business in areas where we may have elements that are missing and it is more expeditious to actually buy something than to be unbilled it. So just to summarize no immediate plans for M&A, any M&A that we do will be relatively small in size and will be something complementary to the areas that we are operating.

Pankaj Chopra Sir, my final question is with regards to FCCBs and there is a window of opportunity of resetting that to a lower price. Has that crossed the mind in all or we rule that out completely?

Matthew Vallance FCCB you said?

Pankaj Chopra Reset the conversion price which could make it less

Matthew Vallance It is not something that we are planning to do at this point in time.

Pankaj Chopra So you have not thought about it as well?

Matthew Vallance Of course, there are a number of options that we can do as far as FCCB is concerned. As I said we are not in a hurry to do that, we think that the position the company is in given our financial position and our cash generation and the outlook for the company that we are not under any pressure to do anything of that nature and that we can just wait until further down the line for refinancing.

Matthew Vallance Thank you very much.

Moderator Thank you Mr. Chopra. Our next question is from the line of Anurag Purohit of Alchemy. Please go ahead.

Mohit Jain Hi this is Mohit from Alchemy. I have two questions on ABU, the first is on the reduction of volumes theme. Despite the increasing subscriber base is there a structural change in the industry for which you are seeing a decline in volume or do you expect this trend to reverse in the coming quarters? The second is on large players' competition. How do you plan to sell your services or what is going to be the proposition? Is it going to be the low cost or do you have a differentiated service offering where you can compete with the larger players? Thank you.

Chandra Iyer Your first question on the compression of volumes when a large number of new players entered the telecom industry. The base benchmark of the product offering change people reckoning one second billing and completely disruptive pricing occurred and as a result all of them had to find ways to manage within the budget set out as a result there was some volume compressions, which is what translated to volume compression attiring. That is now more a stable scenario. And we work with the top players, we work with all the better names in the industry as a result the growing subscriber base will now translate to increased volume. I think that answers your first question. Your second question is on new comers into the industry. Many other players have expressed intent to get into this domestic market and largely learning from the past of the IT where many players ignored the Indian market which then subsequently they had to come in when international players did take an advantage by working with the large Indian opportunities. In this scenario, we find ourselves much better place, we know the market, we have a presence in almost every region of the market, we understand the nuances of both the delivery and the customer base of this market, our delivery model is highly optimized and it has taken us a couple of years to get to this level. We see ourselves having got the head start and the competitive advantage from knowing the industry and the customers and the way to deliver.

Mohit Jain So in fact a follow up on that, you are not seeing cost reduction as a point of competition?

Chandra Iyer No, people might look at entering the market true, there would be instances where somebody might buy a deal but they will be huge entry barriers or in sustenance for growth. People can do one-off deals at a break price but that would only be a one-off deal, it cannot be a sustained market, and today we have a significant market presence and a market share.

Mohit Jain And what are the entry price barriers you are referring to?

Chandra Iyer I have a presence in every region in the country. I deliver Pan India with 10,000 people. I know to deliver across 17 to 18 different regional languages and I deliver to the top brands.

Mohit Jain Okay, sure and what are the normalized margins we are looking for at the ABU unit over a longer-term?

Chandra Iyer No, we have just mentioned in our outlook that we have been cash positive but we are talking about turning EBIT positive this year. Beyond that we are not giving an outlook at this point in time.

Mohit Jain Okay, but is it going to be below the company average or?

Chandra Iyer: Yeah, this market might tend to offer margins which are lower than it is a high volume low margin business as a segment of business, so there might be some variations in the margin, but beyond that we are not predicting or offering any outlook at this point in time.

Mohit Jain So if I assume that ABU recovers by the end of the year or maybe next year in that case there is no major uptick in margins, which may come out of it?

Matthew Vallance I think obviously it is the Asia business unit as and when it comes up to this level of profitability we have in other businesses and clearly our average margins will improve.

Mohit Jain Okay. Thank you.

Moderator Thank you. Our next question is from the line of Srivathsan Ramachandran of Spark Capital. This is a follow up question. Please go ahead.

Srivathsan Ramachandran Hi, I just have a couple of bookkeeping questions, just wanted to know the breakup of the other operating income on what would be grant income and what would be Forex gain?

Krishnan Akhileswaran The Forex gains are around \$140 million and the grant is \$7.5 million.

Srivathsan Ramachandran \$7.5 million I just wanted to know of the hedge book you have given how much expires in FY11 how much expires in FY12?

Krishnan Akhileswaran All of that expires in FY11.

Srivathsan Ramachandran Okay, so at this point of time no hedge book for FY12?

Krishnan Akhileswaran That is correct.

Srivathsan Ramachandran Okay, sir, thanks a lot.

Moderator Thank you. That appears to have been the last question. I now hand the conference over to Mr. Matthew Vallance to add closing comments. Please go ahead sir.

Matthew Vallance Sure, yes, I will just sort of summarize where we see the quarter, and in terms of our revenue on a year-on-year basis we improved by 1.3% and taking out the currency variations we could look at there has been an increase of 6.6% and our EBIT came down on a year-on-year basis by 0.7% or by 40 basis points. A large amount of that was due to increased depreciation charge due to the set up of some new facilities for our international business in Bangalore and the Philippines. We accumulated cash from the \$50 million to \$59 million during the quarter.

Overall, to summarize we see it as a good performance in what is for us seasonally a weak or so would be the fall off in our collections business. It is very much in line with our expectations in terms of the way we performed in the quarter. We are going to continue to sharpen our focus on individual domains that we operate in, so there is particular vertical businesses are going to continue to develop value propositions and sharpen our propositions within those individual markets to make sure that we have more focus and we believe also you do not see much in the call, our onshore/offshore business model that somewhere nearly 60% of our revenue has derived from operations that we run in the US and the UK, our onshore/offshore business model is a very powerful one, something that we've pushed forward in recent years and one which we think our clients are finding very, very interesting and useful. It is particularly useful in an environment where our target markets in the US and UK have high levels of unemployment and where in the US you see increased amount of protectionism, so we think the onshore/offshore model both in client perspective and from a our perspective is something that plays very well. And as I said before we are looking forward to continuing the year well and to ending with a similar or slightly higher revenue growth and gradually improving operating margins as well. So with that I would like to thank you very much for joining and on behalf of rest of the management team here thank you.

Moderator

Thank you Mr. Vallance, thank you members of the management team. Ladies and gentlemen on behalf of Firstsource Solutions that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.