# Q2 FY2012 Earnings Call Transcript – Nov 9, 2011

**CORPORATE PARTICIPANTS**:

- Mr. Matthew Vallance – Managing Director and Chief Executive Officer
- Mr. Rajesh Subramaniam – Deputy Managing Director and CFO
- Mr. Mahesh Pratap Singh – Head of Investor Relations

Firstsource Solutions Limited
Quarter Two Earnings Conference Call, Financial Year 2012
Nov 9, 2011

**Moderator** Ladies and gentlemen good day and welcome to the Firstsource Solutions earnings conference call for the second quarter and half Year ended September 30, 2011. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Mahesh Pratap Singh -- Head of Investor Relations at Firstsource Solutions Limited. Thank you and over to you sir.

**Mahesh Pratap Singh** Thanks Melissa. Good afternoon to participants from Asia-Pacific and Good Morning to those of you who are joining us from Europe and the US. Welcome everyone and thank you for joining us on our earnings call for the 2nd Quarter ended September 30, 2011. To take us through the results and to answer your questions we have with us today, Matthew Vallance -- our Managing Director and CEO.

**Matthew Vallance** Hello.

**Mahesh Pratap Singh** Rajesh Subramaniam, our Deputy Managing Director and CFO.

**Rajesh Subramaniam** Hello everybody.

**Mahesh Pratap Singh** Please note that the results, fact sheet, press release and investor presentation have been mailed across to you and these are also available on our website www.firstsource.com. If you have any difficulties finding these documents, please let me or Ankit know, we will send these across to you.

We will be starting this call with a brief presentation outlining the company's performance followed by a Q&A session. I would like to remind everyone on the call that anything we say on this call which reflects any outlook for the future and which can be construed as a forward-looking statement must be viewed in conjunction with uncertainties and risks we face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent Annual Report which you can find on our website, www.firstsource.com. With that said, I would now turn the call over to Matthew.

**Matthew Vallance** Thank you Mahesh and welcome everybody to the quarterly earnings call. I will begin by talking through the summary of our performance of our Q2 fiscal year 2012 and if we turn to Slide #4. In terms of our financial performance, from a top-line perspective, we closed Q2 with revenues of Rs. 533 crores which represented a Year-on-Year growth of 5.8% in Rupee terms and 7.5% in constant currency terms. And our Quarter-on-Quarter revenue growth in sequential basis represents just under 2% in Rupee terms growth and 0.4% in constant currency. And the reasons for the expansion has been in particular strong revenue momentum in our Asia Business units as well as some favorable currency movements on translation into Rupees which has been offset to some degree by softness in our BFSI Collections business, I talked on previous calls about the cyclical nature of the Collections business and that we are experiencing some cyclical downturn in that business, as well as some softness in the Healthcare.

From an operating EBIT perspective, our Q2 EBIT margins stood at 4.4% which is an increase of 40 basis points over Q1 and the reason why we are able to expand our margins quarter-on-quarter has been on the back of strong financial performance in our Asia Business units, we talked last quarter about the addition of 3000 staff into our Asia Business unit to support growth of largely existing clients and that expansion in Q1 represented an ability to expand our margins and our top-line simultaneously in Q2. Again, the margin expansion that we have seen in Q2 has been somewhat curtailed by the softness I talked about in BFSI particularly Collections business unit.

We go to the next slide in terms of our cash position, we closed the quarter with $184 million of cash and cash equivalents and we talked previously about $180 million syndicated loan, we concluded that and drew down full facility. As we talked about previously we used that facility to pay down loan of $65 million and we have also used some of the funds during the quarter to buyback some of the FCCBs, we bought back $21 million of face value of FCCBs during Q2 and our outstanding in FCCBs are now down to $191.4 million. As you are aware, FCCBs is due in December 2012.

So that is in terms of the underlying cash generation of the business was around $12 million during the quarter. In terms of our employees strength, as I mentioned, a large number of additions last quarter has been some consolidation there, we added about 3,000 in last quarter, this quarter we reduced by net 373 and that is how employee count stood as of the end of the quarter.

In terms of attrition, our offshore attrition is moderated by about 10 percentage points at 48.8%. I think we are seeing more stability in our operations, easing of challenges around recruitments and that necessarily helps our staffing and our retention consequently. Onshore, we are seeing increase in attrition in some parts of our business where we have large volumes Onshore, we see that a seasonal factor of returned to college which has impacted some of our Onshore attrition and our Domestic attrition is moderated down to just a shade under 75% and has come down on over consecutive quarters and we would like to see that trend continuing.

In terms of the facility infrastructure, we have actually added two centers during the quarter, both of them in the UK. Having said that we have also done some capacity rationalization. So on a net basis; we reduced 823 seats to a capacity of 22,519 which gives a seat fill factor of 78% compared to 74% in the last quarter. And the average seat fill during Q2 was 75%.

In terms of our Foreign Exchange position, we continue to hedge our exposures where we have cross currency exposures where we have our cost in Rupees and our revenues in foreign currencies particularly, the Pound and the Dollar. We have also spoken in the past about conducting business in the Australian markets so we started to do some hedging for Australian exposure where we are doing off-shoring work in Australia. For the rest of the fiscal ’12, we got 88% of our dollar exposure revenues covered with 47.3, we got 98% of our Pound covered the Rs. 75 to pound level and 21% of the Australian dollar revenues come in the Rs. 49. For FY13, we have some hedging extends into FY13, amounted to 24% of our dollar coverage, 48.5 and 35% of our Pound coverage at the 77 level.

In terms of the Business composition, in terms of where our revenues come from, I guess the relevant movement we are seeing here is expansion in the APAC stream and that is clearly due to the rapid increase that we saw quarter-on-quarter in our Asia Business unit in revenues on the back of the growth we talked about in Q1. So APAC stood at 16%, UK down by 1% to 32% and US down by 2 percentage points to 52%.

And in terms of our Verticals, as of end of Q2, 34% of our revenues from Healthcare, 35% from T&M, 30% from BFSI and 1% others . You will see also in terms of we have also chart talked about where our revenue gets delivered from with some of the detail, 62% Onshore, 24% Offshore and 14% is essentially our Domestic business in India.

I guess the point to note is client growth and some of our large clients, we are seeing increased concentration has moved up from 39% to 42% and from 31% to 42% over previous year.

And to give you some color in terms of what has been happening in terms of financials over the quarter, I am going to hand you over to our Deputy Managing Director and CFO Rajesh Subramaniam.

**Rajesh Subramaniam** Thanks, Matt. Hello, everybody and we are going to spend some time on our numbers in articulating what has happened in the quarter and compare it with the performance of the previous quarter. Total revenue from operations grew to 533 crores from 523.1 crores, reflecting quarter-on-quarter growth of close to 1.9%. The Year-on-Year growth is close to 5.8%. Our operating EBITDA quarter-on-quarter has improved by 50 basis points from 42.9 crores to 46.2 crores while there has been a Year-on-Year decline of close to 35%. The key metric that we track operating EBIT has shown 40 basis points improvement over the previous quarter, has improved to 23.7 crores from 20.9 crores while the Year-on-Year decline has been to the magnitude of 52%. We have had several positives on our net interest carry on some of the gains we made by repaying some of our high cost loans which were covered at rates which have been favorable for us when we repay those loans and of course, some of our investment income has also been positive for us this quarter which translates into by more than 100% growth in net profit for Q2 and comes in at 21.5 crores, up from 10.6 crores we reported in the end of the previous quarter. Basic EPS is 50 paise, diluted EPS is 48 paise for the quarter.

I will just quickly scan through the half year performance. The revenues are at 1,056 crores compared to 1,061 crores in the second half of 2011. On a Y-o-Y basis it was 994.3 crores in the first half of 2011. So it is a 6.2% growth Year-on-Year and 0.5% decline between the second half of last year and first half of this year. Operating EBITDA fell from the second half from 14.2% to 8.4% and the operating EBIT came in at 44.6 crores compared to 96 crores in the first half of last year and 103.7 crores in the second half of last year. At the net level reported performance from first half is 32.1 crores, 65.3 crores first half of previous period which is a 54% decline Year-on-Year and 73.2 crores in the second half which reflects 57% decline half year on half year. With that I will hand it back to Matt to cover the ensuing sections on the business realignment and the outlook.

**Matthew Vallance** Just wanted to mention that we spent some time during Q2 realigning the way we run the business and I am going to take you through some of the changes that we have made. Essentially, when we look at our business we look on three dimensions essentially; one is our vertical markets and we have been quite deeply verticalised as an organization. We also have horizontal services lines in the business and we also have achieved rapid dimension in terms of the markets that we sell into and the markets that we deliver our services from, so in thinking about our organization structure, these are the three dimensions that we need to take into account. And what we have essentially done is relook at our verticalisation, our vertical emphasis has been really the market facing aspect of the business. So verticalisation really now encompasses sales, our client managements, our marketing, our solutioning and we have created distinct horizontal service offerings which are effectively delivery units, delivering into the different verticals. We believe that the new structure that we are putting in place for them to give us more efficiencies, more economies of scale across service lines and deeper process capability which will lead to a superior level of service. And specifically, what we have done is created at this point two horizontal units; one being Customer Management and the other being Collections. Currently, we sell Customer Management into the T&M verticals and into the BFSI verticals and Collections is something that we sell and deliver for both BFSI and Healthcare. But I think one of the benefits, this is what I talked about before of the new structure is the horizontal service lines which we will be able to sell into more effectively into multiple verticals.

As far as the Customer Management delivery unit is concerned we are actually looking at that in terms of two geographic dimensions as well. So we have two organizations; one being the Asia Customer Management unit, which is responsible for all of our delivery in Asia including our Domestic operations as well as our Offshore operations in India and the Philippines. And then we have our Onshore Customer Management operations which are essentially all about operations which are primarily in the UK but also in the US doing Customer Management services. At this point we are keeping the Healthcare business unit which includes both the work in our payer and provider segments, we are keeping as separate and distinct vertical business unit.

In terms of the Business outlook if I turn to the business outlook segments, as far as Healthcare is concerned we have seen a strong uplift in our pipeline in our provider segments with increase in interest and what we call a premier partnership program and that led to a strong uplift in the pipeline which we believe will flow through the business in subsequent periods. And we are also seeing strong interest in insurers; our payer pipeline remains quite buoyant. Overall, we are expecting consistent levels of growth and favorable financial performance in the sector.

In Telecoms and Media, we have started to see the ramp-up of two clients; two recent wins that we talked about in previous calls and we started seeing those businesses ramping to operations and we are seeing a very strong pipeline in this segment, in particular, we are in late stages pursuits of two large three-year deals with $85 million in total contract value and we are expecting to close those in the near-term. We are also finalizing the large expansion of an existing customer over a similar contract timeframe. So, we are pleased with the momentum that we got in Telecoms and Media business. We had previously reported several quarters back, some softness in that segment and we are pleased to see a more than strong rebound in that area.

In BFSI, overall the market and demand continues to be soft. We are experiencing lower volumes than historically now in UK mortgage operations area. In our card area and as far as our Collections is concerned, I mentioned a cyclical effect that we seeing and we expect that to continue to impact our overall financial performance as we move forward into Q3. And as we mentioned that the market has been somewhat subdued for us and we expect the pipelines to remain soft in the short-term although we are taking actions to bring it back to where it has been and beyond.

In Asia Business unit, we are successfully increasing our footprint with existing telecoms customers and we expect to continue to do that and we expect to see a new ways of growth coming through in Telecoms as the Telecoms in Asia continue to rollout value-added services and data based services into the marketplace. We are seeing activity in the Government sector in the PSU segments in India particular. We are pursuing some selective opportunities outside of India in South East Asia and it is very important for us also to continue to focus on operation improvements to drive financial performance.

So if I just summarize how we see the outlook for the organization as a whole, we expect revenue momentum for the business to improve in H2, if I look at H2 over H1, we will see an uptick in growth, particularly with the ramp-up of two clients I mentioned in the Telecoms and Media business we expect to see the pipeline conversion show up in our numbers and as we move into a H2. On the other hand we do expect to continue to face some headwinds. As I mentioned a decline in volumes in BFSI Collections, we do not see that letting up in the Q3 timeframe and softness in the BFSI outlook will remain both in the US and UK. With that being said we expect to see some increase in our constant currency revenue on the back of the ramp-ups I talked about in T&M but the margins will be under some pressure due to consequent cost of growth and what I mentioned in terms of our Collections business. That brings the presentation to an end. I am going to hand it back to Mahesh who will be able to moderate the questions.

**Mahesh Pratap Singh** Thanks, Matt. Melissa, we can open the call for Q&A.

**Moderator** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets while asking a question. The first question is from the line of Kunal Tayal from Bank of America-Merrill Lynch. Please go ahead.

**Kunal Tayal** Firstly, wanted to discuss the margin outlook for the company. The normalized range for the company had been in the 9-10% range and in the last quarter we saw a dip essentially because loss of a client and then investments in Asia Business unit. So with those factors normalizing, let us say by somewhere of Q3 and Q4, where should we expect steady state margins for the company to track that?

**Rajesh Subramaniam** At this point in time it is going to be a little difficult to give you steady state margins because as Matt has alluded to the significant TCV in the T&M segment that we are bidding on and we are very close to short list and typically Onshore business margin profile is different from Offshore margin profile though the return on capital employed from those businesses are far superior to our Offshore business. So at this point in time I would not like to put out a range of numbers, but all that I can say is that the significant tailwinds we are seeing in growth, we expect to convert some of them, and we do not want to talk about until we know it is certainly done. And such growth have also an element of cost of growth so to that extent, while last year we did come out with 9-10%, I would definitely say our numbers this year would look slightly weaker than those numbers, largely on account of some of the structural issues we are seeing in the Collections business which is seeing a reduction in inventory in the US which is resulting in softness in that business profile. But the growth that we are seeing in the other lines of business will take time for them to get to steady state. So, sometime when we are clear on how our business profile based on our revenue growth improves I will be more than happy to bring you up to speed.

**Kunal Tayal** Just in terms of the Telecom deals that you are speaking of, if and when these deals do close successfully, typically, how many quarters does it take for the profitability in these deals to reach a steady state, is it fair to think maybe three-four quarters or could it be longer?

**Rajesh Subramaniam** It is a function of how effective the migration and the client's readiness, Kunal, so typically in Offshore businesses I would definitely tell you in two quarters we would get to kind of a run rate basis, and as we start Q3, we would be on the profitability path. In onshore businesses there are two types of businesses; there are some where there is an incumbent vendor from whom the work is going out, in some cases, there is incremental volume growth which comes our way. So there are different kinds of business models on the onshore site. So it is safe to assume two-three quarters even in onshore business but there might be some positive upsides too.

**Kunal Tayal** Right and last question on Telecom, the 85 million TCV is across the three deals and not each of the three deals?

**Mahesh Pratap Singh** Kunal, 85 million TCV is couple of new clients we are talking about and the 75 million TCV is the expansion we are talking with one of existing customers, so both are separate.

**Rajesh Subramaniam** Just to clarify, the 75 million TCV with an existing customer, which is an incremental number over the three-year period of the contract.

**Kunal Tayal** While we have added 75 million incremental TCV at least this part of the business should that start flowing in at maybe company level margins or would that also entail increased investments?

**Rajesh Subramaniam** There is a base business which is generating a certain level of margins. There is an incremental business which happens at a sigma of the base business in the same centers and the same location under the same management team. So there incremental gross margin should have a higher effect on my EBIT, then if I were to setting up a Greenfield center, but there is also significant portion of those businesses which necessitates us to set up new centers in new locations within the United Kingdom which will go through the two-three quarters margin profile discussion we had earlier.

**Kunal Tayal** Got it. One last question on the Healthcare side, the pipeline has been growing for the last few quarters, but just in terms of translating to revenues that has been taking a while. So any particular reasons why this maybe lagging behind expectations and near-term what would be the growth expectations like?

**Matthew Vallance** On the Healthcare side, we have been talking about particularly in the past about improvements in the pipeline on the Payer side which is a relatively smaller segment of the work that we do in Healthcare. So we have seen that in previous quarters and talked about it. And as we are going through best of performance in our Payer business than we had expected, so we are seeing the benefits, the majority of what we operate is in the Provider segment, that is in that segment that we are seeing an improvement in the pipeline as of this current quarter, on the back of some changes we made in the sales organization and we brought onboard teams to look at certain large deal types and industry partnerships which is showing up now in our pipeline and some of those deals are in relatively early stage but we expect that to materialize into business over coming quarters.

**Rajesh Subramaniam** And Kunal, in our Provider business, our revenue is generated when the hospitals collect their cash and so what typically happens is pipeline converts to contracts that execute to work and then the hospitals get their revenues and then they pay us, it is not something that we see quarter-on-quarter for the pipeline to convert, so I might have a $60 million pipeline, which might translate into $30 million of contract, but the revenues that I generate would only be 3 million but what it means is the $30 million contract minus some churn would generate the revenues over the ensuing periods that evolve over the next 4-6 or 8 quarters. So it is basically to build up of how the inventory of what the hospital is collected based on which we get our commission rates and how they grow. So the pipeline to revenue cycle conversion in provider is a lot longer than would it be in the other lines of business that we have or in our Payer business.

**Moderator** Thank you. The next question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

**Srivathsan** Just wanted to understand the impact of some of this business restructuring you are doing and how would you measure if this restructuring is going to be successful or not?

**Matthew Vallance** I think the question was how we measure whether it is going to be successful. I think what we expect is that by bringing together operations effectively being running similar service lines across verticals into a single operating unit that we will be able to drive cost efficiencies. Because, essentially what we have had is some amount of duplication, particularly in the support functions and by bringing all of the common operations, for example, in particularly in Customer Management bringing them all into a single operating unit, we will be able to generate clear economies of scale, expand management spans and that will drive financial savings to the bottom line, I do not have a specific figure to give you on that but we still have expectations on those lines. We also expect by having a unit focus on specific service lines in order to drive more value additions for our clients, more depth of expertise in that service lines, because if I look at what clients buy from us, yes they buy certainly our vertical domain expertise and to that extent our vertical structure is very helpful and desirable. But, they also buy some of our process knowledge as well. And that process knowledge if we can intensify that by having all of our common process type works within a single unit it gives us more depth, the more capability, more credibility with our clients, more ability to add value to their businesses. So the benefits come along with these two dimensions; one is the clear financial benefits from scale and synergy and then of course the more value-based benefits which translate into better performance for our customers and more ability to convert new business and to sell into existing accounts. The other benefit is worth mentioning also I touched on earlier is really it will improve our ability to cross-sell different service lines into verticals.

**Srivathsan** Okay. And just wanted to understand this is more on the operational side or also on the sales front would you be aligning on the similar level of infrastructure?

**Matthew Vallance** It is going to be on the operational side. So the sales organization remains verticalised. The sales organization will be organized like sales, client management, marketing or solutioning will have a vertical flavor and this relates really to the operations.

**Srivathsan** Sure. Just wanted your thoughts on one, with almost just a year to go for the FCCB repayment, in your estimate, how much more debt you would need to refinance that? That is one. Second, just wanted to know at what level of Forex would you kind of play it safe and hedge your FCCB outstanding?

**Rajesh Subramaniam** At Rs. 49 the gap is about $60 million as we see the way our cash will build up over time and your second question, I think our realistic assumption would be I guess somewhere between 45 and 46.

**Moderator** Thank you. The next question is from the line of Hardik Shah from KR Choksey. Please go ahead.

**Hardik Shah** Sir, how do you see the revenue flow from BFSI in Q4? Because you mentioned already weakness witnessed in Q3, do you think the things will turn on in Q4 on Y-o-Y basis?

**Rajesh Subramaniam** There will be a turnaround between Q4 and Q3. It is just that the revenue uptick we see in Q4 of this year is likely to be a lot more subdued compared to Q4 of last year given what happened in the Collections business. And so we are trying to align our cost structure in line with what the new realities are to make the impact on margins lesser than what would have happened if we did not take certain actions.

**Hardik Shah** Sir, if we consider the slight weakness in BFSI plus Healthcare, the only growth here is telecom. So do you see like in a coming one or two years the growth rate will be in single-digit?

**Matthew Vallance** I think we talked about strengthening the pipeline, and first, we have a strong growth trajectory already happening within the Asia Business units and we talked about strengthening of the pipeline within Provider, all those improvements in the Healthcare pipeline are relatively recent. We talked about a very strong improvement in the telecom pipeline. So it is really the area where we are seeing weakness in the pipeline is more in the BFSI segment and we are taking actions to bring that back. But I think the growth we see in the other segments in particular the Telecom segment has the ability to put the company on to faster growth track as we move through the second half of this year and into the fiscal '13.

**Hardik Shah** What kind of margin target are you keeping for the coming a couple of years? Because I understand like Q3 will be weak, Q4 will be hardly any major growth, and do you expect that in FY13 your margins will return to 9-10% levels?

**Rajesh Subramaniam** As I said it is too early for us to comment because some of the deals we are looking at I would definitely qualify them as game changing deals in the T&M segment. Depending on the outcome of those deals, we will definitely communicate with you what the forward 12-18 months margin and revenue profile of the company would look. Until then bear with us.

**Hardik Shah** Sir, in your cash flow statement you showed a business acquisition which has amounted to Rs. 20 crores, so what exactly is that?

**Rajesh Subramaniam** In one of the deals that we did with a large banking customer it was a lift out deal which requires us to pay 2.5 million pound every year for four years contract period. So that number is in relation to the payout made as a part of the deal.

**Hardik Shah** What is your Capex plan for H2FY12?

**Rajesh Subramaniam** Capex plan will be a lot lesser, in fact, as a process, as Matt had explained, we have net reduced 823 seats. So some of the initiatives we are taking are to rationalize some of our centers to drive our fill factor and efficiencies. So I would expect Capex to be a lot muted in the second half of this year compared to the first half and until we get to a certain level of fill factor, I do not see the more Capex being invested in the company in the near-term.

**Hardik Shah** Sir, just last question, your growth in constant currency term was 0.4% in Q2 FY12, is it right sir?

**Rajesh Subramaniam** Yes.

**Moderator** Thank you. The next question is from the line of Dinesh Kumar from Aditya Birla Money.

**Dinesh Kumar** I have a couple of queries; one is the margin profile. I just want to understand what internal strategy which we are doing to get back the margins to a comfortable level for us? And second question is about can you throw some light on Asia Business Unit operations performance especially on a financial side? Thanks.

**Rajesh Subramaniam** In terms of what specific actions we are taking a) we are looking at our cost structure across the world to see where we can get alignment of our margins in terms of the business lines that we operate in and the realities of those business lines. So while we make investments in the T&M business, in the Healthcare business we might be looking at rationalizations in the BFSI business and in some of the support organization, so we have our game plan in place, but as you will appreciate just like our sales cycles are longer, any of these initiatives that we take also take time and have several implications but the only comfort I can give you is that we have our eye on the ball on how we align our cost structures to the realities of growth that we are facing or likely to encounter as we look at the next 4-6 quarters.

**Dinesh Kumar** On what time period we can expect this to reflect in numbers, so what our strategy which we took in the last two or three quarters, so when will we see this translating?

**Rajesh Subramaniam** I think unlike some businesses where I can take four bricks out and replace it with two, it does not work like that in our business. It is a people's business, we have 29,000 people and we deal with customers, so any action we take takes time and then the actions we take if they are proven to be right we continue with them, if they are wrong, we have to replenish it back, but my guess is over the next 2-3 quarters I would expect to see on the base inventory of business on a like-to-like basis, I would definitely expect to see margin expansion to start reflecting in our numbers.

**Matthew Vallance** Our Asia Business unit as I mentioned we added 3,000 people into that business in Q1 and that has given us a strong uplift in both the revenues and the profitability in Q2, it is actually we had a operating EBIT positivity in the Asia Business unit for the full quarter which has been extremely encouraging and it has also been a record quarter in terms of revenues.

**Dinesh Kumar** Can you give us what percentage is our operating EBIT for Asia Business unit?

**Rajesh Subramaniam** We do not give segment wise profitability but Asia Business unit is making money at this point.

**Moderator** Thank you. The next question is from the line of Rosita D'Souza from Elara Capital. Please go ahead.

**Rosita D'Souza** I just had a couple of questions on your FCCB. The FCCB obligation is due in 2012 and the outstanding amount if I understand correctly is 191.4 million but if you take into consideration the premium that is payable is about 266 million. Given your current cash position and the internal accruals that are likely in the forthcoming year, it is quite likely that there is going to be a gap. How does the company plan to bridge this particular gap?

**Rajesh Subramaniam** I think as we spoke, the gap is about $60 million and obviously we will look at opportunities of buying back our FCCBs between now and till the maturity. We have our RBI approvals in place toward to do so. So we will take a look at those options. And I am sure for a company of our size, scale and given where our liquidity ratios would be I would expect that I would be able to raise debt capital to be able to fund this and that is a confidence level we have.

**Rosita D'Souza** Okay. You would not be looking at equity dilution at all?

**Rajesh Subramaniam** At Rs. 10.75 or Rs. 11.30, I will not be able to hazard a guess that I would want to dilute at these prices.

**Rosita D'Souza** Okay. Is it more likely that you would look at debt financing?

**Rajesh Subramaniam** Yes.

**Rosita D'Souza** The other question is what was the outflow? Because 21 million is a face value, right. What is the outflow on account of the FCCB buyback?

**Rajesh Subramaniam** We are not sharing that data but it is within the RBI guidelines.

**Rosita D'Souza** Okay. One last question, where do you see your loan book, what number do you see ending towards the end of this year? It is about 2,000-odd crores now.

**Rajesh Subramaniam** I think the guidance that we can give you is we will be on a debt-equity basis we will be sub-one.

**Moderator** Thank you. The next question is from the line of Ronel Singh from Frontier Investments. Please go ahead.

**Ronel Singh** I have a couple of questions like. My first question is this quarter there is a reduction in your seat count as well as the employees. However, your personnel and operating expenses has been increased. So I would like to know if you could elaborate on from where these expenses have been coming from. And another question is will you be looking for restructuring of your FCCBs as well apart from your buying back?

**Rajesh Subramaniam** We consolidate on a line-by-line basis. Some of the personnel costs that you see also has the delta between the exchange rate movement between Q1 and Q2, so obviously you will appreciate that the Q2 our exchange rate was much higher than what was average rate in Q1. So it is a non-cash impact but it is a translation increase between Q1 and Q2.

**Ronel Singh** And the next question of the restructuring on the FCCB. The restructuring of the FCCB, is that an option you are looking for?

**Rajesh Subramaniam** No, at this stage I have explained in an earlier question the gap we need to pay out for FCCBs we are confident we will raise them, so why would I go down a restructuring path at this point.

**Moderator** Thank you. The next question is from the line of Atul Gharde from SJS Markets. Please go ahead.

**Atul Gharde** My question is again on the FCCBs. Now, I understand you are quite confident that you will be able to raise the shortfall here. But just going back, even you raise this 180 million long-term loan, can you confirm is it for the secured loan or was it unsecured?

**Rajesh Subramaniam** It is a secured loan.

**Atul Gharde** I just wanted to understand if you can clarify what is the security for this?

**Rajesh Subramaniam** It is a normal assets of the company; it is a normal security that the secured lender will look for.

**Atul Gharde** Right, because I mean where I am coming from is I just wanted to understand if your US asset which is MedAssist if you have raised any loan on that. Because there was also a rumor that you are probably looking to exit that business, so my point of view is that you either might exit that business or you could also probably take debt on that to repay the FCCB so that is where I was coming from.

**Rajesh Subramaniam** We have taken our loan in our US books, but I would not comment on market speculation and rumors on the second element of the question.

**Atul Gharde** Right, but you mean to say MedAssist business is actually levered and it is not unlevered?

**Rajesh Subramaniam** MedAssist is not the only business we run in the US. We have almost 3,500 people in the US across Collections, Payor, Mailroom and MedAssist, so the loan that we have taken is in our US holding company that holds all our assets under one umbrella.

**Atul Gharde** Right. Would you be able to comment on the leverage levels at that business?

**Rajesh Subramaniam** No, we do not disclose subsidiary level leverages.

**Atul Gharde** Okay, but would you be able to comment if it is higher than the holding company, the overall company or is it a bit lower than that?

**Rajesh Subramaniam** At this point in time all I can tell you is that the debt-equity ratio that we have out in our reports which are out there is only disclosure that we will make.

**Atul Gharde** Okay. My only point was that if it is probably under levered you have more room to incur debt there?

**Rajesh Subramaniam** The only comment I will allude to is that I do not see a problem in raising 50-60 million in debt.

**Moderator** Thank you. As we have no further questions I would like to hand the floor back to the management for closing comments. Please go ahead sir.

**Matthew Vallance** Thank you. I just conclude by reiterating the outlook for the second half, we do expect to see improved revenue base. If I look at the second half over the first half I expect to see acceleration in our top-line and I expect to see overall improvement in our profitability over the first half. In particular, some good traction that we are seeing in our Asia Business units and in particular, build up of new business in Telecoms. However, I think in the next quarter we still face headwinds on the margin front coming from our seasonal weak quarter 3 for our Collections business on top of the fact we are seeing cyclical downturn in that segments as well in addition to some cost of growth as we ramp up business that we signed in our Telecoms business over previous quarters. So that is what we look forward to in the next two quarters of the fiscal year. I like to thank you for joining the call and I hand back to Mahesh.

**Mahesh Pratap Singh** Thanks, Matthew, thanks everyone for joining the call today. We hope all your questions were answered. If you have any follow-up question please feel free to direct those to Me or Ankit in Investor Relations team at Firstsource. Thanks again and look forward to speaking to you again next quarter. Thank you.

**Moderator** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Firstsource Solutions that concludes this conference call. Thank you for joining us and you may now disconnect your lines.