Q2 FY2013 Earnings Call Transcript – October 26, 2012

CORPORATE PARTICIPANTS:

- Mr. Rajesh Subramaniam – Managing Director and Chief Executive Officer
- Mr. Dinesh Jain – Joint CFO – Financial Control
- Mr. Deep Babur – Joint CFO – Corporate Finance
- Mr. Diwakar Pingle – Christensen Investor Relations

Firstsource Solutions Limited
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Moderator Ladies and gentlemen, good day, and welcome to the Firstsource Solutions Ltd Q2 FY13 earnings conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Diwakar Pingle from Christensen Investor Relations. Thank you and over to you Sir.

Diwakar Pingle Good evening to participants from Asia and good morning to participants from Europe and US. Welcome everyone and thank you for joining us on our Earnings Call for the second quarter ended September 30, 2012.Please note that the results, factsheet and the presentation have been mailed across to you and is also available on our website www.firstsource.com. To take us through the results and to answer your questions we have with us today Rajesh Subramaniam – our Managing Director and CEO;

Rajesh Subramaniam Hi everyone

Diwakar Pingle Our Joint CFOs, Mr. Dinesh Jain and Deep Babur.

Dinesh Jain Hi

Deep Babur Hello everybody

Diwakar Pingle We will be starting the call with a brief presentation providing an overview of the company's performance followed by a Q&A session. I would like to remind you that everything said on this call that reflects any outlook for the future or 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 in our website. With that said, I would now turn the call over to Rajesh Subramaniam, our Managing Director and CEO. Over to you Rajesh.

Rajesh Subramaniam Hello everybody, what I will do is take you through some of the strategic developments that has happened with the company and then go through with the highlights of our Q2 performance. We signed definitive agreements yesterday with the RP-Sanjiv Goenka Group to allot them 226.89 million equity shares at a price Rs 12.10 constituting 34.5% of the post issue paid up capital of the company. The proceeds on the issue is close to Rs 275 crores, somewhere close to $52 million and we see this as an extremely positive development as we see this as the step in the right direction, which will enable us to redeem the bonds in full with the cash that we have and the cash that we can raise with the support exhibited by the investment. So, overall a very positive development for the company. It also provides us a very strong platform for accelerating growth and it basically will enable us to help us take this company to the next level with the support of a very strong promoter. As I mentioned, the FCCB of 237 million is due on December 04, 2012.The equity infusion of about $51 to 52 million and as on quarter end in the balance sheet, we have cash of about $145 million and the balance, we will have the ability to fund by raising additional debt capital to fund the FCCBs, so extremely confident of repaying the bonds in full on the 4th of December.

Now let me get into the Q2 highlights – Q2 revenues came in at Rs 7,176 million, exhibiting a quarter-on-quarter growth of 6.3% in INR terms and 5.4% in constant currency terms. The growth was largely driven by higher volumes and ramp ups in our customer management business across our estate in the US, UK, and Asia. As I continued to say, the healthcare payer business is doing extremely well on account of some of the regulatory changes that we have seen in the US. The volumes, the incremental volumes, the growth would have been higher, but has been offset by continued softness in our collections business, which is again through its cyclical downturn given the deleveraging of the US economy and we also are seeing some delays in the healthcare provider business, whereby the eligibility services, which is a big element of our revenue cycle management business, we are seeing a delay in the approvals from the payors and the Medicaids that ultimately pay the hospitals, we are seeing a delay and build up in inventory, but that is a temporary situation, which will correct, but on account of these two, we did see a drag on our growth, which otherwise would have come in much higher. But overall, a very good quarter in terms of revenues, year-on-year growth of almost 35% in rupee terms and 18% in constant currency terms.

The important element, which I have been stating in the past is the fact that the worst of our financial performance is over, and we are back on improving our margins. Q2FY13 operating EBIT margins at 6.3%, which is higher by around 130 basis points compared to the previous quarter. It is largely on account of the cost of growth, which we incurred in Q1 goes away and the ramp up of business started generating the margins at a level they were priced at. Continued cost benefits from efficiency gains from some of the cost saving initiatives that we undertook last year. These margins would have looked better, but for cost of growth that we have incurred on account of supporting ramps both in on-shore locations and Offshore, which again is good problem to help, because it helps the company grow and when these costs of growth translates into full revenues in the ensuing quarters, it restores the margins profile back to its original levels. Year-on-year, our operating margin expansion was 190 basis points.

If I go to the next slide, cash on cash equivalence of about 7,778 million as of September 30, approximately $147 million compared to 7,507 million in the previous quarter. Again very strong operating cash flow that we generated this quarter and this position only gets better with 2 more months of operations that we have, which will again augment our cash towards repayment of FCCB. Employee strength 32,365 – 22,177 based in India, and 10,188 outside of India. Net reduction of 188 employees despite 5.4% growth in constant currency terms. Attrition was lower in the offshore locations 56% compared to 64% in Q1. Onshore was higher because we had significant elements of growth, which include transfer of undertaking from the existing vendors on to us, which did result in some spike in attrition during the month of July. The India business again, the attrition is down by 8 to 9% on the back of some measures that we have taken in addressing the right levels of people that we need to manage our business with. Seat capacity 24,358 seats, reduced by 588 seats, again as we are weeding out inefficiencies in the business. We added one center in Patna, in India, and we reduced one center in Mumbai.

Our seat fill was 80% compared to 77% so a 3% improvement obviously reduces what I call my unallocated cost, which helps improve my gross margins. And my average seat-fill factor for Q2FY13 is at 78%. Outstanding Forex hedges at $25 million, 33 million pounds, and 10 million Australian dollars. For the next 12 months 85% coverage with rates for USD at 53 levels, pound at 83 levels, and Australian dollar at 51 levels. For the succeeding 12 to 24 months we have covered 38% with rates of 56 for the USD, 89 for the pound, and 53 for the Australian dollar. Other highlights, North America continues to contribute the largest contribution from our business, 45% from North America, 35% from UK and 20% from India and the rest of the world. By vertical telecoms and media continues to be the largest contributor at 44%, healthcare 31%, BFSI 24%, and others, which is largely publishing contributes 1%. From a client-mix perspective, our top client is 17% and our top-5 clients 47% largely similar if you look at the trends both in Q1 this year, and Q2 last year. By delivery location, on-shore is about 68% and offshore including domestic is about 32%. With that I will now hand over to Deep to take you through the section on the financial performance.

Deep Babur Thanks Rajesh, just reading through the numbers on slides 11, which Rajesh has given you. Essentially explained the context around the revenue from, operations was 718 crores, which is a 6.3% improvement over the previous quarter when we did 675 crores, about 35% over the same quarter the previous year 533 crores. The operating EBITDA is at 68 crores this quarter as compared to 56 the previous quarter. It is 9.5%, the operating EBITDA margin, which is a healthy improvement of 1.3% over the previous quarter, and in absolute terms it is 22% improvement over the previous quarter, and 47% over the same quarter last year. At the EBIT level, the improvements as compared to the previous year is even more significant, almost doubling from 24 crores to 45 crores, about a 91% improvement, and in terms of percentage margins, 4.4% going to 6.3%. The 1.3% growth over the previous quarter remains from 5 to 6.3%. On absolute terms 35% from 33 crores to 45 crores. At the PAT level, we grew from 29 crores last quarter to just under 36 crores this quarter, which is basically a 70-basis point improvement in percentage margin over the previous quarter, and compared to the previous year it is essentially a 68% improvement in absolute margin and a 24% improvement over the previous quarter. The next slide, slide 12 summarizes the first half of this year, taking both the quarters together. Here we have done 1,393 crores the first half as compared to the last year, which was 1,056 crores and is compared to the second half of last year, which was just under 1,200 crores, so in percentage terms 16% over the previous half, and 32% over the same half last year. Operating EBITDA for the first half of this year is just under 9% at 8.9%, about 124 crores, which is a healthy 29% improvement over the previous half when we did 96 crores, and 39% improvement over the 89 crores we did the first same half last year. At the EBIT level, we have achieved 79 crores at 5.6%, which again represents a 54% improvement over the previous half, when we achieved 51 crores and 76% over the same of the last year. So, net-net we have actually achieved 65 crores of PAT, which actually is higher than the PAT we achieved for the whole of last year, but compared to the 30 crores of what we did the previous six months, and prior to that the first half of last year was 32 crores. You can see it has about doubled the same half of last year. With that I just request Rajesh to take us through the business outlook.

Rajesh Subramaniam Thanks Deep, in terms of the outlook the growth momentum in my customer management business, we continue on the back of continuing ramp in T&M clients and rise in volumes from my existing clients. Healthcare payer business will continue to perform much better, we grow at rates higher than the overall company growth rate. The provider segment will be stable and overall we see that between the customer management and the healthcare business is we see a significant momentum, which will enable us to deliver growth rates, which are towards the higher end of the spectrum where NASSCOM projects the industry growth rate. We are still seeing a challenging environment in BFSI, especially in our collection business while we believe that the worst for that business in terms of cyclicality is over. We are seeing small uptick in the inventory of credit card debt, let us see whether that is a sustained trend, which will play itself out over the next 12 months, or is it a temporary phenomenon. It is too early for us to comment, but despite some of the negative setbacks in the collection business, we will have growth rates as I mentioned to you on our revenue, which we aligned between the 11 and 14% range.

Our margin expansion will continue into Q3 and into Q4. Q3 traditionally is seasonally our weakest quarter, so we expect our revenues to be largely flat, which actually means a growth given the fact that I have lesser number of working days in Q3, and we definitely expect to see margin expansion continuing into Q3. So overall, a very good quarter. A very important strategic development for the company, which should bolster the confidence of the various stakeholders, a very strong promoter, and fundamentally validating the fact that the business we are in is a long term, very attractive business that can generate significant returns and create value. With that I would like to hand it back to the moderator to open up for questions.

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

Srivathsan Just wanted to get your thoughts on the demand environment. We had a couple of large deal wins about Q4 FY 12 if my memory serves me right, about $160 million, this has ramped up pretty decently for us. How would you look at it in terms of deal signings in this first half and then what kind of growth trajectory, at least qualitatively, you are looking at, maybe beyond FY13.

Rajesh Subramaniam My deal pipeline has doubled from last quarter to this quarter, Srivathsan, so that is a heads up I can give you. We have restructured the entire sales organization both across the US and the UK. We have aligned the sales function with a very strong vertical focus and we are now adding a lot more solutions than earlier we have been selling, so as I said, between the last quarter to this quarter, significant movement in my pipeline, almost doubling my pipeline across the estate in the company, between healthcare, telecoms, media, and financial services. As I said, we are confident of growth and I think, once the FCCB is repaid, and the company has come back to the level of cash generation, there are several tactical and strategic investments that we will start revaluating with vigor, which I believe can help us drive growth superior to what we are currently exhibiting. It is too early for me to share those details, but overall with our Q2 performance and the trajectory we see for the rest of FY13 and the visibility we have for FY14 as of now, we believe, we have a very good performance, which will play itself forward over the next 12 to 18 months.

Srivathsan Sure, and in terms of the margins trajectory, we had a sharp improvement this quarter and continued margin performance, just wanted to see what are the further levers we have at this point, is it specifically like an India business unit, which has been possibly struggling for the last 4 years, are we seeing some kind of turnaround there, or what could be levers or is it just more a scale-led growth that will drive margins.

Rajesh Subramaniam All of the above Srivathsan, one is in my domestic business, we have got price increases, so we have gone, as I said, we are driving behavior changes, which are basically telling the customer the more I scale, the more I lose money, so we are changing that, and we have gone and enforced price hikes both contractually and you know out of contract to ensure that we remain relevant and we are driving behavior to tell people that we don't want your business because we are happy to transition the business to any other vendor of your choice. This is some of the conversations we are having with them to ensure that we try and make money but the only swing factor here is the fact of minimum wages that affects us from all the states that we work, so we are looking at this business carefully, long term, we believe, we will be working for fewer clients, but harvesting operating leverages to at least try and get a significant uptick in the EBIT margin profile from where it is right now. The other thing is with Offshore growth have unallocated costs, we built up big SEZs in Bombay and in Bangalore, and we also have capacity available that can support, my sense is, anywhere between $100 to 125 million cost where I don't need to build facilities, I will obviously have tech Capex and other elements so some of those costs, which I call as my unallocated costs are some in the range of about $ 4 million and with growth those will start getting absorbed in the business, plus the payer and the provider business continue, as I said, the demand environment there is extremely positive. The provider business is seeing a delay in the approvals from the payers and the Medicaids, and the charities, but that is a temporary situation, but once that corrects the revenue delta that I will generate will flow straight into my bottom-line because the costs have already been incurred in terms of getting those approvals done. And in my customer management business a lot of transformation deals, we have seat a deal on the table in the UK. Some of the deals in the past, in the last 3 to 6 months, we have walked away on account of the level of working capital support that I would have to have put out to try and bid on those deals and trying to conserve cash for the FCCB, but a lot of those issues now fall away given the backing I have and yes, so I basically think that whatever growth rates, we at Firstsource as a standalone, would have been able to achieve, we definitely should be able to a) accelerate that, with some of the investments we will make, and b) it brings a lot of confidence back in our customers, with the resolution of solvency issues of the company, so there is a shift in momentum even on the customer side, which I believe, at least with the business of sophisticated financial services clients, which I believe should help us see some growth next year linking it back to the deal with the Goenka group. So, overall very positive Srivathsan.

Deep Babur Just to add, Deep here, also financially speaking, the margin we have achieved this quarter, is on the back of 9 crores of loss from foreign exchange hedges, so you know, that as my hedges get closer to the rate, you will see that, intrinsically if you take that away, that itself is a 1 to 1.2% improvement in the margin right there.

Srivathsan Yes, yes, I did see that. Just on the domestic business, as price hike already been effective, or is it due from a future date.

Rajesh Subramaniam It is already being enforce, some pricing have been effective, September 1, some pricing will happen from November 1, so we are in different points, because of contract renewals etc, where there is contract renewal link, it is futuristic, where we have told them that we don't want to be in business with them, they have given us the price hike.

Moderator Thank you very much. Our next question is from Subhankar Ojha of SKS Capitals and Research. Please go ahead.

Subhankar Ojha A quick question on your post preferential issue and post FCCB redemption, net debt figure if you have that, if you can help me out with a ready calculation on that effectively post you know, these two key events, once they are over, say mid December what will be your net debt figure.

Deep Babur Somewhere around $220 million.

Subhankar Ojha Post FCCB redemption and post preferential issue?

Deep Babur Yes, that is correct.

Subhankar Ojha You would still be left with $220 million of net debt.

Deep Babur My net debt as on September 30 was $277 million. That will basically improve to the extent of the preferential allotment for $52 million, and then the cash that I generate. So, effectively it will be around $220 million post FCCB redemption.

Subhankar Ojha All of it would be external debt?

Deep Babur Yes, obviously, external debt.

Subhankar Ojha Okay, there is some financing that, if I remember reading correctly, that ICICI Bank is doing also on the domestic side? Some money that they are increasing their lending exposure to the company, is that external debt?

Deep Babur The bulk of the debt will be in US dollars, you will have working capital lines in India, you will not have terms loans in India, we will have working capital lines in India to the extent that they are drawn, there might be some Rupee exposure.

Subhankar Ojha This would be all the interest bearing debt, none of it would be convertibles or any other forms, right.

Deep Babur Absolutely, all is going to be non-convertible regular term debt.

Subhankar Ojha What would be average cost on this again?

Deep Babur We still have to work out, but typically as you would expect, this will be somewhere in the 5.5 to 6% range.

Subhankar Ojha Right, and they are all unhedged, there is no hedging that the company does on overseas borrowing, because it is all kind of natural hedge in terms of your revenues, etc.

Deep Babur That is correct.

Subhankar Ojha Okay, what would be the maturity profile of this debt, when would you have to repay most of these?

Deep Babur We have an existing debt of $180 million, which we took last year, last July-August that has a maturity profile starting in June 2013 of $11.25 million a quarter, for the next 16 quarters thereafter, so it is actually $45 million a year.

Subhankar Ojha So that is bulk of it basically.

Deep Babur That is bulk of it. The rest of the debt, honestly, is yet to be taken, but that will have a maturity profile that will be more back-ended.

Subhankar Ojha You hope to meet that through internal accruals or would you be resorting to fresh borrowings to meet that?

Deep Babur No, that will be internal accruals.

Subhankar Ojha Okay, so you have that visibility in terms of cash generation on that front.

Deep Babur Yes.

Subhankar Ojha What is your overall target in terms of reducing this debt going forward? Say in a year or two down the line, do we sort of hope to bring this down or are we comfortable with this level of debt?

Deep Babur Fundamentally this debt will come down by repayments, when we say a year or two down the line, by that time I will have paid up about $65 million of this debt. Effectively, I will have a net debt of $150 million at that time, which is reasonable.

Subhankar Ojha By, you are saying, by say end March 2014 or so.

Deep Babur Yes, that is correct, end March 2014, I will be more like, $170 million. I will have repaid $45 million by then. That is a comfortable level of debt. That is reasonable for us as a Company.

Subhankar Ojha I don't have the exact figures in front of me unfortunately, but your goodwill is greater than your net worth, what is your overall sort of strategy to write-off this goodwill, what is the rate at which you are amortizing in at the moment?

Deep Babur We are not amortizing the goodwill, it is being tested for impairment by the auditors every period end.

Subhankar Ojha Okay, has any of this been impaired in the past.

Deep Babur No, none of the goodwill has ever been impaired.

Subhankar Ojha Okay, so your auditors believe that this goodwill does not require any write-downs or adjustments at the moment.

Deep Babur That is correct.

Subhankar Ojha For the foreseeable future, this goodwill will remain the way it is on your books?

Deep Babur As of now, there is no plan, but you know, I cannot really comment on the future.

Moderator Thank you very much. Our next question is from Ankit Bafna of Credit Suisse. Please go ahead.

Ankit Bafna How should we think about this deal in terms of certainty in terms of the approvals required, is there is anything in your view that can push it back. And secondly if you can also give some clarity on the $50 million of funding from the mix of loans facility and at what stage that is? And who would be the likely lender for that?

Deep Babur As far as the deal is concerned, it is typical as Rajesh said earlier we have signed definitive agreement, so it has to go through the approval process, which is the, EGM is scheduled on 22nd of November, so it is subject to the shareholders approval. That is really the key approval that needs to come through. That is typical approvals for the new shares from stock exchanges, and stock prices, which are more procedural in nature. So, effectively that is the only key approval at the EGM. Coming to your next question about the $50 million of debt, you might recollect, we had basically been able to tie-up about $45 million of debt, but we could not pursue that further because we did not really have a full solution and that time lenders were saying all or nothing, so pretty much we will be going back to those lenders and those are discussions that are ongoing, and we do expect to close them shortly.

Ankit Bafna No sort of spoilers expected on this front as well? Do you think all of the cash from equity and the additional $50 million of debt to come in by 4th of December?

Deep Babur That is correct.

Ankit Bafna I understand the 26% open offer that is made, it is more in line with the regulatory requirement the reason for the number 26.

Deep Babur That is correct, that is line with the regulatory requirement.

Ankit Bafna Because given that the tender offer price is sort of lower than the market price, of these stocks I am talking before the drop in share price today. Even if let us say nobody tenders in the open offer, the RPG Group would still be okay with that and maintained their stake at 49.5, right?

Rajesh Subramaniam They will have other methods with the existing shareholders, because they are buying 15%, they might enter into an agreement with them to buy whatever is required to get them to that 50.1%, so that is an option which also could be pursued.

Ankit Bafna We also understand that ICICI wanted to exit Firstsource or rather get their shareholding below certain level. Currently 15% as I understand would be sold by three key shareholders, right, ICICI, Temasek, and Metavante at 5% each. Do you see further sort of stake sale by any of these three, or, how do you look at this entire thing?

Rajesh Subramaniam I cannot comment on what actions that the shareholders might take, but ICICI, they have to be at 5%. After the dilution and the sale, the three shareholders will be somewhere between 6.5 to 7% each. As I said, there has been material dilution for them and very aligned, but the fact that they still will continue as large shareholders in the company.

Moderator Thank you, our next question is from Dinesh Kumar of Aditya Birla Money. Please go ahead.

Dinesh Kumar I need a clarification on this top client. Actually it has grown almost substantially on a Q-o-Q basis. Is a one-time thing?

Rajesh Subramaniam It is not one time, it is a planned ramp.

Dinesh Kumar Okay can we expect this kind of thing to be sustained.

Rajesh Subramaniam It will not grow 3% every quarter, but yes, I think where we have achieved is a steady state, and after that we definitively see growth coming over the ensuring three to four quarters, but there is no one-time, I mean, the growth between Q1 and Q2 in my top client is not linked to one-time growth.

Dinesh Kumar In the con call you were saying that you almost doubled the deal pipeline, can you quantify whether the deal size has increased on a year-on-year basis?

Rajesh Subramaniam We don't give that guidance, but it runs in few hundred million dollars.

Dinesh Kumar Is it improved on a historical point?

Rajesh Subramaniam Absolutely, but the pipeline has doubled from Q1 to Q2 and the logical conclusion would be that between FY12 and FY13 the pipeline obviously has improved.

Dinesh Kumar What is the other operating leverage which we have to improve the margins from this current level and the seat factor has improved from 77 to almost 80, is there further room to improve from the current levels, what is your take on this?

Rajesh Subramaniam We have several levers across elements in my variable cost, elements in my fixed cost, depreciation leverage, we have scope to improve our margins going forward.

Dinesh Kumar Coming to this another comment which you made, you were saying that FSL will grow above NASSCOM guidance of 11 to 14%.

Rajesh Subramaniam I said at the higher end of the NASSCOM guidance of 11 to 14%.

Dinesh Kumar Actually is it on constant currency terms or is it on rupee terms you were saying?

Rajesh Subramaniam In rupee terms.

Dinesh Kumar On FCCB front, in the US$237 million, which we need to pay, is it fixed at a dollar or is it still open?

Deep Babur To the extent that there is debt that is going to be done that is to come in US dollar so I don't need to hedge that, if I take that away from the remaining about half is hedged and half is open.

Dinesh Kumar You were seeing lot of ramp up happening in the payer segment, will this US election outcome will have any impact on this payer and provider segment in healthcare vertical?

Rajesh Subramaniam The key element is if the Republicans win do they have the mandate of overturning some of the healthcare reforms, we don't know which way it will play but the current what we see with our payers in terms of standardization and system conversions which are happening and the guidelines that they have given us, I think at least for the next 2 years, we definitely see growth rate in the 15 to 20% in the business in the payer segment. On the provider segment, reforms will have an impact because lot of the reforms depends on Republican states and Democratic states, it is yet to be seen how that will play itself out, but if the reform mandate gets implemented, it provides us a significant opportunities because there has to be a lot more enrollment services need to be provided because lot more people need to be brought under the Medicaid umbrella, so there are several opportunities that will happen if the healthcare reforms are implemented in the way it has been architected, if it hasn't I will still have a very profitable business that will still grow, so it is just maybe I want to make some of the investments that I believe I can make to accelerate growth if the reform mandate plays itself out.

Dinesh Kumar Correct me if I am wrong, as per my understanding FSL is more into provider segment, actually we have a lesser weightage on payer segment, is it right?

Rajesh Subramaniam Absolutely right.

Dinesh Kumar Can you quantify that, how much is payers and how much is providers in the healthcare segment?

Rajesh Subramaniam One thirds is payer and two thirds is provider.

Moderator Our next question is from Srivathsan Ramachandran of Spark Capital, please go ahead.

Srivathsan I just wanted to understand if there is any clarity on the tax treatment of the FCCB repayment, because there is going to be two angles, one is the FOREX depreciation if my memory serves me a right, while taking the FCCB it was close to 39.6 and now possibly repayment will be close to 53 or 54 kind of number and then the interest payment, what kind of tax treatment would this have from an income tax point of view?

Dinesh Jain This will be available for tax purposes deduction.

Moderator Our next question is from Sandeep Baid of Rochdale Investment Management, please go ahead.

Sandeep Baid Just want to understand what prompted the deal from your side and from the Goenka Group side and second question would be in regards to how the Goenka Group plans to fund the deal if you could share some details if you have?

Rajesh Subramaniam Let me give you the rationale from my perspective. From my perspective, I get a very strong promoter, I got a very reputed solid promoter that was basically replacing ICICI which has been with the company for 11 years, so it helps me plan the future strategies of this company and they have been a big supporters of professional management and all are very positive developments from my perspective, so that's the answer I can give you. I think from their perspective, this is a high growth industry and I guess our assets was of a scale that we are among the top 5 BPO companies in India and its basically the belief that it was a diversification where something over the longer term will generate significant shareholder value for them and I think that is the only answer I can give. How are they going to fund I think that's the question which I think would be inappropriate for me to answer.

Moderator Thank you very much. Our next question is from Ankit Bafna of Credit Suisse, please go ahead.

Ankit Bafna More from curiosity perspective, what is the sort of incentive for CESC to acquire Firstsource at this point, they could have very well let the FCCB issue get over and have it restructured and then go for the acquisition? Obviously it is a very, very strong point for Firstsource, but thinking from CESC's perspective what could be their incentive to acquire the company at this point?

Rajesh Subramaniam I think the question is, if I have gone through the FCCB restructuring, the potential dilution would have been somewhere between 55 to 60% and on the back of improved performance, the equity optionality could have been real, so then the question is how do you fix the cap table and how do you get control of entity once the FCCB restructuring is done?

Ankit Bafna Secondly on this again, CESC is essentially a power player, why is it that the RPG Group is doing the acquisition while this entity wherein they already have a company called Zensar which is into IT, BPO, etc.?

Rajesh Subramaniam This question is not appropriate for us to answer.

Moderator Thank you. Our next question is from Koushik Vasudev of Elara Capital. Please go ahead.

Koushik Vasudev This question might sound a little repetitive, but just for the sake of my understanding, why are we so excited about CESC being our promoter, because we had like three great institutions ICICI bank, Temasek and Metavante and they have typically been people who have been promoting good businesses. Are we going to depend on CESC also for some acquisitions going ahead?

Rajesh Subramaniam Let us take a look at three shareholders, ICICI has been the promoter of the company being with the company for 11 years and diluted over a period of time and by regulatory reasons needs to be below 5%. Let us take a look at Metavante, which was strategic investor in the company, but post their acquisitions by Fidelity, it became a portfolio investment of Fidelity and Temasek is a portfolio investor and all of them have been in this company for over 8 to 9 years, so it is logical they have been looking to exit this investment and it is no secret they have been looking to monetize this investment for some time now and why I am excited with CESC, as I said it is a great promoter and I think they back professionally management teams, historically they have shown that they have acquired platforms and those platforms have done very well creating value and wealth for stakeholders involved and that is why I believe that we have a very good promoter backing the management team that I have to take this company to the next level. In terms of future acquisitions, I think it is too early right now, we have put our FY12 behind us and we are back on our recovering path of restoring our numbers and our financial healthcare paying the FCCB that is our target right now and at the same time, it gives us the ability looking at the external environment and take investment bets that otherwise we would have been constrained as a standalone company. How we are going to do that it is still unclear, but it does open up different opportunities for us that we would have recused ourselves from.

Koushik Vasudev What kind of cumulative cash flows are we looking at over the next three years on a business as usual scenario?

Deep Babur Operating cash flow should be rich. We should have operating cash flow in excess of $50 million over the next three years not cumulatively obviously.

Koushik Vasudev I am just having a look at Firstsource for the first time, just for the sake of my understanding what went wrong exactly in FY11 and FY12 and what are we planning to do?

Rajesh Subramaniam Why don't you seek time with us separately, it is a long story I cannot summarize it in 2 minutes, so why don't you take time with my IR and I will explain that to you.

Moderator Thank you very much. Ladies and gentlemen that was last question. I would now like to hand the floor back to Mr. Rajesh Subramaniam for closing comments.

Rajesh Subramaniam Thank you. Ladies and gentlemen thank you for joining the call. It has been a good quarter, we are back on recovery track. We expect our margin expansion to continue. We have a robust pipeline. Our sales momentum is strong and we are extremely excited about the strategic development of the Company and as I had earlier historically said that the worst is behind us and I think we are on a path of growth and profitability which I guess will endure and sustain going forward. Thank you for your time today for joining the call.

Moderator Thank you very much, ladies and gentlemen on behalf of Firstsource Solutions Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.