Q1 FY2014 Earnings Call Transcript – August 07, 2013

CORPORATE PARTICIPANTS:

- Mr. Rajesh Subramaniam – Managing Director and Chief Executive Officer
- Mr. Dinesh Jain – CFO
- Ganesh Iyer – Head Strategy & Investor Relations

Firstsource Solutions Limited
Quarter One Earnings Conference Call, Q1FY14
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Moderator Ladies and gentlemen good day and welcome to the Firstsource Solution Ltd Q1 FY14 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" followed by "0" on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Iyer, Head of Strategy and Investors Relations - Firstsource. Thank you and over to you, sir.

Ganesh Iyer Welcome everyone and thank you for joining us for Q1 ended June 30th, 2013 Earnings Call of Firstsource. Please note that the results, fact sheet and the presentation have been mailed to you and you can also view this on our website www.firstsource.com. To take us through the results and to answer your questions we have with us today Mr. Rajesh Subramaniam, our Managing Director and Chief Executive Officer and Dinesh Jain, our Chief Financial Officers. We would be starting this call with a brief presentation providing an overview of the company's performance followed by 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 the conjunction with uncertainties and risks we face. These uncertainties and risks are included but not limited to what we have mentioned on our prospectus filed with SEBI and subsequent annual report which you can find on our website. With that said I would now turn over the call to Mr. Rajesh Subramaniam – our Managing Director and CEO.

Rajesh Subramaniam Thanks for your time for joining the call. What I will do is take you through a quick presentation on the executive summary of what happened in Q1 of FY14 and what our outlook is going forward. In terms of operating revenues Q1 revenues came in as Rs.719.1 crores compared to Rs.675.2 crores in Q1 of FY13 and Rs.712.5 crores in Q4 of FY13. The year-on-year growth is 6.5% in rupee terms and 4.5% in constant currency terms and the quarter-on-quarter growth is 0.9% in rupee terms and flat in constant currency terms. Given your understanding of our business you will realize that the collection business has a seasonally very good quarter in Q4 of any financial year. So the collection seasonality fall off in Q1 and almost 50% to 60% of that revenue goes into the bottom line, so despite those impacts our performance has come at metrics higher than what it was in Q4, so if I normalize for collections seasonality the 1% growth would have been closer to 2.2% in rupee terms. Our operating EBIT came in at Rs. 62.4 crores compared to Rs. 33.4 crores in Q1 of FY13 and Rs. 61.3 crores in Q4 FY13. The year-on-year growth was 86.5% and the margin expansion of 370 basis points from 5% to 8.7%. Again on the QoQ basis the margin expansion on a normalized basis for collections seasonality was much higher and also you will realize that a big portion of our agent and the operating employees across all geographies have the wage hikes which are effective April 1st , so, despite the seasonality fall off and increase in salaries our margins have expanded both QoQ and significantly YoY. Profit after tax at Rs. 41 crores compared to Rs. 29 crores the same period last year and Rs. 40 crores in Q4 of FY13, a year-on-year growth of 42% and a margin expansion of 140 basis points. The full impact of the interest cost that we pay off is close to Rs.21 crores is evident in Q1 that is why the YoY growth is lesser at the PAT level compared to the EBIT or EBITDA levels, essentially because of the interest payments we made in Q1. Our current cash and cash equivalents is about Rs.153 crores as of June 30th compared to Rs. 93 crores in the previous quarter. We also repaid US $11.25 million towards our first principal repayment of the loan on our US books. Employee strength largely flat at 31,623 employees as of June 30th, attrition has seen a spike 52.7% in the offshore estate compared to 49% in Q4. Onshore has also has seen a 500 basis points increase, the domestic business a combination of what happens in Q1 and a combination of weeding out some of our non-profitable business and letting people go, has seen some of the attrition numbers being higher than the last quarter. Also Q1 typically is a back to school quarter, back to college quarter for a lot of people so that insures that attrition traditionally is high in Q1. Q2 we already are trending at numbers lower than what was there in Q1**.**

Seat Capacity is at 23,637 seats worldwide, we continue to rationalize capacity based on what we see as good economical sense, seat fill factor at 82% is pretty much the same which was in last quarter. On our FX hedges, outstanding hedges of $28 million, £45 million and AU$6 million, for the next 12 months. 90% covered at Rs.58 levels on the US dollar, 90% GBP at , Rs.90 levels and 92% for the Australian dollar at Rs56 levels. For the subsequent 12 to 24 months which takes us into Q1 of FY16, we have covered 22% for US dollar at Rs.66 levels and 47% for GDB at Rs.100 levels. So the important point I will lay out here is our loan book in the US, today our net long-term debt is about $167 million-$168 million which we are repaying $45 million every year. The onshore business of ours that we deliver in the US and UK, the earnings between the pound and the dollar, services a significant portion of our principal and interest repayments. The net gap that we have, that has to be supported from India is about $11 million which is the portion we keep uncovered on our receivables book which then gets serviced out of the receivable earnings which acts as a natural hedge. So any currency related questions on what happens to our loan book, what you see in the stated results is on effect of consolidation and does not affect us from a cash servicing perspective. The other highlights on slide 8, it basically gives you a snapshot of how our service delivery organization and our client organization is structured, in terms of revenues North America contributed 46%, 34% from the UK and 20% and India and the rest of the world which is Sri Lanka. From verticals, Telecom and Media continues to be the largest vertical 45% followed by Healthcare at 32% and BFSI at 22%.

From a client concentration perspective top client 18%, top 5 clients 43% largely the same ratio between last year and this year, so no significant movement in terms of top5 but obviously our largest client has continued to grow significantly. From delivery prospective 67% of our revenues are delivered onshore which again drives back into the summation I had explained in terms of how we service the debt we have in our US books.

Let me take a look at the financial performance in its minute shape in Q1, so revenue from operations at Rs. 719 crores, Rs. 712 crores in Q4 of FY13 and Rs. 675 crores in Q1 of FY13, 6.5% growth and 1% growth year-on-year and sequentially. Our operating EBITDA came in at 11.2% at Rs. 80.6 crores compared to 8.2% last year, there is a Rs. 2.4 crores decline between last year fourth-quarter and Q1 this year but it actually implies a significant performance given the elements of seasonality fall off and wage hike increase, so if I take a look at year-on-year basis it is a 300 basis points improvement in EBITDA margins, so at 8.2% we end up the year FY13 at close to 10% and we are trending at 11.2% in Q1 which sets me up very well for demonstrating the margin expansion that I have been talking about which should be north of 12% for FY14. Operating EBIT, I think we have been very smart in how we spend cash on CAPEX, how we optimize capacity, how do we sweat our assets a lot more so depreciation came in lower which has improved our EBIT both sequentially and year-on-year and I did mention that we did have an interest expense of about Rs. 21 crores in Q1 compared to Rs. 19.8 crores, so the delta between Rs. 19.8 crores and Rs. 20.7 crores is essentially on consolidation where the rupee has depreciated by almost Rs. 5 to the dollar sequentially. Profit before tax at Rs. 43 crores which is sequentially higher by close to Rs. 2.7 crores and higher by almost Rs. 9.2 crores year-on-year and PAT of Rs. 41 crores, which again sets me up very well in terms of where we believe FY14 will deliver, so overall very happy with the performance and the engines of growth that we have earmarked in healthcare and customer management are paying off. The collection business is hurting us, as the collection business is going through some changes driven by regulatory compliance and client actions whereby we have not seen the level of margin traction we would have ideally liked in Q1 compared to Q1 of last year and despite the seasonality fall off, but we are managing the business as robustly as we can. The customer management pipeline has shown significant traction again in many hundred millions. We are seeing significant improvement in our financial services pipeline, significant traction from clients who have problems dealing with the regulatory environment they operate in, given some of the stringent rules driven by FSA, is throwing up big opportunities. We have signed two new logos in the financial services segment of very large banks both in Ireland and UK which will set us up very well for the next year. We have got big commitments from our existing clients to scale over the next couple of quarters, one is taking us to a new city in Philippines- an existing client who has a very bright outlook going forward. The other one is amongst my largest clients who has innate demand based on their new product launches is ensuring a robust growth for us. So overall and to complete my summary on this, the healthcare payer business is doing extremely well, will achieve numbers far ahead of what we had internally budgeted on the back of new logo wins which was absent last year and our hunting team has done extremely well in adding two new logos in Q1 itself and existing clients are growing. So overall extremely positive in terms of how we set ourselves up for FY15, still a fair bit of cleanup is being undertaken, there is a lag effect of churning customers or driving price increases, which will again start reflecting going forward which ultimately this year, we will see margin expansion to continue, we will see our growth being predicated on profitable businesses that achieve a certain hurdle rate in terms of how we expect it to generate cash flows which in the ensuing years we are hoping that they will be able to accelerate our debt repayments based on strategy and the path we have to set out for ourselves. So in terms of long-term strategy and what we believe short term certainty moving into Q2 our revenue growth will be moderate and margin improvement will continue, most of the ramps that we have been talking about would be evident in Q3, Q4 but there will be elements of seasonality in Q3, there will be some offsets in volumes softness in some of the customers that will leave us, so net-net as I said it will be a profitable growth, margin expansion will continue, cash buildup will happen, our debt servicing obligation will be met in full without any refinance. So that is it from me with that I will hand it back to Ganesh.

Moderator Ladies and gentlemen we will now begin the question and answer session. We have the first question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran Just wanted your thoughts on two broad topics, one, there has been some delay on the healthcare deadline and so just wanted to understand what kind of rub off effect it will have in terms of our behavior both on payers side as well as the provider side?

Rajesh Subramaniam Even if the reform mandates were on its original track, the provider business is a lot more fragmented business, so there is a clear segregation from hospitals which are 10,000 beds and those which are 500 or 600 bed hospitals., So the system readiness or the reform mandate adoption by the hospital segment is definitely far lower compared to the payer segment and within the hospital the bigger versus the smaller ones, so I think right now the innate demand in our core revenue cycle management services in terms of how, we have seen the Medicaid and Medicare budgets opening up. There are payers delays in terms of repayment but the budgets are there and will be open for the next 4 to 5 years based on how accelerated the entire enrolment process of all the uncompensated coming on mainstream into being eligible based on the reform mandates. And things in the healthcare industry unlike financial services do not happen at a speed which one desires, so fragmented market has presented its own opportunities and obviously some of the strategies that we had in terms of member care, full business office servicing into the hospital network, so in some of those propositions sales cycles will expand. But the entire hospital business for us has been in a flux over the last two or three years, it is just in January that we have kind of brought in a completely new management level working from the time we have acquired the business, so right now we know exactly what we need to do to stabilize this platform and take it to a reasonable level of growth definitely not in the 15% to 20% but I would be very happy if this platform can grow anywhere between 6% to 10% over the next couple of years because it throws up a lot of cash. The EBITDA conversion to cash is almost 90% to 95% in this business and now this is delivered onshore, the ticket size is also large which includes my ability to service any of my debt obligations. On the payers side the conversion of the ICD-10 and some of the healthcare exchange build outs are happening. We're getting seat on the table on the exchange deals, in partnership with a very strong technology provider, personally I was skeptical whether our partnership will work in breaking through that market but honestly it has, given our domain in the whole adjudication space and systems integration requirement of implementing a system, that partnership is working and we have got our first win in that market which will play till out in the next six months. So from the reform mandate there are delays even if the reform mandates played out to the T, the adoptions would have different reasons for different segments but overall for me the payer business is something I am confident will grow by 15% to 20% and the good thing in the payer business we have always said we want to offer customer management services as part of our strategy into that segment, we have got our first win from our existing client which is testimony of the fact that our relationships are helping us open up doors in places where we do not have experience in the US in the healthcare market. And that business if we get our act right and execute over the next couple of years can scale much faster than the adjudication business that we have.

Srivatsan Ramachandran My second question on the India business you have been maintaining that either we will exit low profitability business or no profitability business and we have seen some decline in revenue, so just wanted to get a sense on how much more time we should look at a decline in the India business and what will be the profitability you can kind of factor in for the business that will finally stay on?

Rajesh Subramaniam The India business as you rightly pointed out we have reduced about Rs. 4 crores to Rs. 5 crores quarter-on-quarter but profitability has improved. So right now the first thing we are doing is having very hard conversations on price increases and SLA term changes, everybody is on the table talking about this. Our target is that, currently my India business is trending at about 9%-10% EBITDA and 3% to 4% EBIT margins from loss of about 2%-3% EBIT last year in FY13, but if I allocate my working capital interest it is still negative because working capital almost Rs.70 crores to Rs.80 crores is stuck in this business at any point in time given the delayed payment cycles which telcos exhibit. So if in this year the conversations at some point we don't get to where we want to be, we will look for means of requesting our partners to start diverting the volumes to the other vendors that work with them in the circles that we operate in. So I expect action to continue till January-February-March and by then when we start next year, we will start on a basis of being at a margin that we wanted to play in this business or definitely without this today I can't predicate how much of the estate of the Rs. 350 crores will shrink but theoretically speaking if this Rs.350 crores wasn't a part of Firstsource our overall margins would have been higher by about 1%.

Srivatsan Ramachandran My next question is on the cash generation the overall plan, I think, for the last few quarters you have been generating healthy cash so in some form, how crucial is this clean up of the India business and improving collection period to the ability to generate adequate cash flows not more so on FY14 but FY15 onwards because our existing cash balance will help us on the FY14 mid but 15 onwards how do you see this and is there a new incentive structure or something that you put through to ensure collections are better with the help of sales or deliveries team?

Rajesh Subramaniam Excellent question and true for all that you have said, one thing that I will add to it is the maximum cash conversion I get is from our healthcare provider business. In the healthcare provider business, we are sitting on a lot of historical inventory which is approved and unapproved so we have now got a dedicated inventory office working on high-value claims that can convert to cash based on how do we drive a little bit of analytics in pushing the right claims to the right channels which have a higher possibility of converting to cash. So the healthcare management, the inventory focus in my healthcare provider business coupled with all the other actions you mentioned will secure us in FY15 onwards and the question is based on our EBITDA profile this year and the run rate of the EBITDA that I will start next year, the only question is do we wait for four years to repay our debt or do we accelerate our debt repayment based on some of the profitable growth that I will get from our existing customers and the new logos we have signed.

Moderator The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja Just wanted first of all to get a sense on what are you seeing within your top customers in that perspective as Rajesh mentioned that we are seeing a very good growth in our top client? Also wanted you to give us the sense on what is happening to our next leg of customers because if one is looking at your metrics, one has seen some bit of revenue decline in the 2 to 5 client bracket, so if you can tell us what is happening over there? And secondly just wanted to get a sense on what is happening in the BFSI segment ex of collection business?

Rajesh Subramaniam First let's take a look at our largest client, it is in the telecom and media space. A client whose core business is going through significant uptick because of the new products and penetration they're driving and we are the largest partner for them and we are getting the benefit of. It is a little bit of a virtuous cycle, because we help them sell more and when we sell more the whole customer service element comes back to us, so it is a virtuous cycle and fundamentally underlying their products and what they bring to the market is superior to pretty much anyone in the market that they play in, so that is why you would see that from last year to this year the footprint has improved from 15% to 18%. Our second-largest and the third largest customers are in banking and telco, one is telco in India and some of the degrowth is based on the our decision of scaling down because it is not profitable enough. The banking industry compliance issues around the mis-selling of insurance across product lines be it credit card, personal loans, savings accounts and the next one is mobile insurance all these are opening up possibilities for us. Based on the footprint that we work with pretty much most of the large banks in the UK and leveraging our strengths on what we do for them, we have managed to penetrate the market in Republic of Ireland where we have signed up two of the largest banks there and we also have signed up one of the high street banks which is in the FTSE 100 based on the cross selling the capabilities and productizing initiatives which hitherto we hadn't focused on. So I am extremely bullish on the banking business in the UK excluding collections in the US, my media business is doing extremely well. On the telecom business we have seen some churn both in the Australian market and in the UK market but the new business growth that I have signed up with three of my very large accounts which are in my top 10 will more than offset any of the softness in volumes we will see, that will go away based on some of the in-market developments that these customers have gone through. So overall a 2% point between 45% to 43%, do not read too much in to it, the good thing is my big customers are breaking away fundamentally on the health of their own businesses and we being the largest partner and one of the customers that have hitherto been at levels of 200 to 300 people will scale significantly in the banking business and all offshore over the next couple of years driving fundamental margin expansion.

Manik Taneja The second question was with regards to our margin profile, if you could give a sense of what are the tailwinds that you see to margin improvement although you did mention that the exit from some of the lower margin clients or loss making clients plus the India business apart from that what are the other margin levers for us and where do you see a sustainable margin profile for our business?

Rajesh Subramaniam So overall at a company level absolutely right, one is giving up business, the other is price increases with the business with the customers that want to stay. The third element of it is high profitable existing clients growing which is also being evidenced by us. Fourth element is a concerted focus on driving operational efficiencies. In our business there are six or seven metrics across segments that we operate in which we are now focused using a deep level of analytics to drive optimum efficiency across the resources that are at play that will also start contributing results going forward. And at a sustainable level as I said this year 12% to 12.5% EBITDA and going forward the expectation is also given where the currency is now, our hedging is, another 200-250 basis points improvement in FY15 is something I will not rule out.

Manik Taneja So you are looking at about 14%-15% EBITDA margins in FY15?

Rajesh Subramaniam That is right.

Moderator The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar Taking forward your comments on revenue growth, just wanted to put in perspective, what your thoughts for the rest of the year are because you specifically mentioned Q2 might be moderate, so do we still believe we could end of the year with about 8%-9% rupee growth?

Rajesh Subramaniam From a rupee growth I'm still holding to the range of Rs. 2950 crores to Rs. 3100 crores, my sense is that Rs. 3100 crores won't happen because if you recollect in one of my earlier calls I have mentioned one of the deals that we are working on, we are working as a sub with the large provider because it was a pretty large

$150 million a year kind of a contract that has gone to competition. Some of our existing estate will better out but my two existing clients have signed up significant growth in business which will more than offset some of the softness that we will see in this client in Q4. So will I be at Rs. 3100 crores? No. Will I be at Rs. 2950 crores and above? Yes.

Baidik Sarkar Secondly on your margin expansion, obviously FY13 has been a phenomenal year as far as EBITDA expansion was concerned, what is the realistic expansion you are looking at for the rest of the financial year and what specific levers do we have in mind for that?

Rajesh Subramaniam So my margin expansion as of date 12% to 12.5% EBITDA profile we are looking for in FY14 which can go up by further 200 basis points in FY15. The levers I have are across all my estate in a very bullet focused operating efficiency measurements we are doing, plus growing profitable clients because my sunk cost of my profitable clients, the learning curve in my profitable clients is already evidenced based on the tenure. And there are significant operating leverages that I can toggle with, when existing clients that have been with the company start growing in a different trajectory, so overall very positive for the next couple of years.

Baidik Sarkar And my last question is the headwind that you talked about in the US, BFSI business that is the business risk but what is the realistic outlook on that not negating the rest of the good work you are doing in other segments? How concerned are you about that?

Rajesh Subramaniam I'm concerned but I'm not in a blind spot, I mean, there are elements of the business which are in my control. Let me give you an example, in my collections business, my pricing is on an outcome basis so once I collect, I get money and there is a fair element of analytics that goes in and making sure that out of the portfolio of placements that we get who is the person that we contact through whatever channels we contact, based on ability, willingness to pay, based on the scoring mechanisms which we formulate based on publicly available reports because in the US your credit reports and standing of citizens with their credit history is really available but given the fact that if I have limited resources in terms of people and I get hundreds and thousands of accounts that I need to collect off, I need to make sure that I have the right contact in ensuring which then ensures my ability to collect money. But what has regulation done for me now, regulation earlier I would be able to contact this person on his mobile, home, letters, e-mails, skip trace all those methods were available for me, now 90% of my contacts used to be through mobile and what has now happened is regulation has said that any contact has to be on the landline and not on the mobile, I mean, so what now typically happened is that if I needed 300 collectors to collect 300 million of debt over a period of time now I need 500 collectors because our collector has to contact the person multiple times before they get through to make the collection happen. So some of the regulations are weird at some level and made it almost impossible to try some of the non-linearity that we have seen in the past. Will it change, I don't know but do we know what the problem is, absolutely yes, do we have levels of flexibility in managing our margin profile to some extent yes, are we playing them out now, absolutely yes. So while it is not going to be something that a profitable business that we expected will come in at 50% - 60% of the expectation, yes. Will it come at 50%-60% negative to what the zero is, absolutely not.

Baidik Sarkar Could you breakup what was the reasons for sharp fall of depreciation cost, I mean, what happened?

Rajesh Subramaniam I think the depreciation cost sequentially is not a sharp decline and we were very smart in terms of leveraging CAPEX and OPEX models, so where we have the ability of somebody to fund it at an IRR which is more benign than my cost of capital of spending money and depreciating the assets so we have used that so that goes into my direct variable cost in my gross margins and so we have been smart about how we use our cash. Plus one of the elements of depreciation also had one of the payments we were making to a large bank whose back office we lifted out and that has fallen away this year. So a combination of being smart with how we spend money and some of our customer contractual tail offs from depreciation has helped us come with better numbers on that line item of cost.

Baidik Sarkar Is it fair to assume a similar run rate for the rest of the year?

Rajesh Subramaniam We will have an uptick because we are expanding into new city in the Philippines on the back of customers, we will be setting up a new centre but some of that will be offset by a depreciation tail off in my domestic business. So my sense is it will be largely flattish with an upward bias.

Moderator The next question is from the line of Neeraj Somaiya from Span Capital. Please go ahead.

Neeraj Somaiya My first question was on your top five customers and your top customers has grown from 14% to 18% and the top five customers from 44% to 42% or even if you take the year-end. Why some of the customers have come down on them because of one of the customer must be Telecom and that is why you had this impact because your top customer grows but other customers are not growing, how would you comment into this?

Rajesh Subramaniam The answer is yes to both so one of my banking customers has reduced footprint not significantly but there is a reduction in one of my banking customers in Philippines. And one is my domestic customer, a very large telco where we are taking out lines of business which is not making us money and has got significant working capital embedded in that customer.

Neeraj Somaiya My second question would be number of seats. Now you reached the seat factor of 82% may be can go up 1%, does the management now gets concerned and if you get huge growth in the years, right now from repaying loans and somewhere are you forgetting growth, I mean are you aware of this that you are raising a high utilization rate and how would you answer to this?

Rajesh Subramaniam So right now we are at 80%-81% fill factor and my belief is that we can take the number right of to 93%-94% before we start looking at building capacity so my sense in that we have the ability, we have two large SEZs in Bangalore and Bombay which can support significant elements of growth with incremental CAPEX on technology and some of the internal fit outs. So my fundamental belief is if a customer takes me to a new geography I will have to add seats which is what is happening in Philippines and potentially could happen in South Africa going forward but in terms of India the kind of capacity that we have, my sense is we should be able to support US $100 million plus of future growth with incremental CAPEX and not from Greenfield CAPEX.

Neeraj Somaiya My third question is on analytics, how would you grow it internally, would you acquire because you would need at some point of time if you see on the other players growing there are some of the buzz what is analytics rightly or wrongly, I don't understand but how would you comment on this or how would you bring that buzz word or would you acquire, how would you go and acquire a software company or what would you do in terms of the next level to grow?

Rajesh Subramaniam I think from earlier representing analytics without embedding it how it would impact us and our business, what we have done as a team over the last one year is define what is the next wave of opportunities with our existing clients is and how do we make an impact which is beyond what our contractual commitments are. So we have as a team defined that very clearly and now we know what our end-results, requirements are, then we went backwards and look at, building those capabilities is an option but that takes longer just leverage some of my personal and VC networks and got access to a whole bunch of young analytics companies with great products and services ideas who we are now doing pilots with within the company to see whether they play themselves out in the end result that we see. So some of these pilots are underway over the next 2-3 months we will know which is the partner we want to align with and then we would try and create the partnership which gives the customer a comfort in terms of how they can become a white label partner for Firstsource which then gives me time to ingrain those capabilities and build it out in the future, so we won't do big ticket acquisition because first what we are doing is to see our hypothesis and how we impact our customers playing out based on more what I would call incubation and then embed them because these young companies don't have an access of the kind of customers I have and I don't have the capabilities that they can bring to the table which can make a material impact in terms of how I scale my existing customers, so we are creating a win-win kind of partnership which will play it through forward over the next three-six months.

Neeraj Somaiya Would you be at confident of achieving 15% to 20% growth which you have stated earlier and continuing that for the next two years or would you now little bit with environment with rupee changing that have any hampering or do you think that is yet possible from Rs. 150 crores to grow 15% to 20% and top end already you have said 2950, so how would comment, is that possible?

Rajesh Subramaniam My profit growth definitely is more than 20% would be my expectation.

Neeraj Somaiya Revenue does not matter in bottom-line matters because Firstsource means bottom line?

Rajesh Subramaniam Bottom line absolutely.

Neeraj Somaiya Because of the rupee how much the impact actually come because of the rupee and how have we taken it, can you just show some understanding on it and are you on track to repay the 30th September, 11 million and would that continue 11 million payment could just throw some light on that?

Dinesh Jain I think if you see the cash balance we are carrying Rs. 150 crores so paying that US $11.25 on 30th September and going for quarter are no worries at all. As far as the currency risk I think Rajesh in the beginning explained most of the revenue and the profit which we're going to have in UK and US will take care of my repayment, there will be a small shortfall of maybe $8-$9 million which again we have an India receivable which we have not hedged to the full. So there is a natural hedge going to get created and we do not see any of the impact on repayment of that on account of currency depreciation.

Neeraj Somaiya So you think this year $44 million, would be achieved from internal accruals itself?

Dinesh Jain Absolutely $45 million as well as the interest payout of $11 million everything is from internal accruals.

Neeraj Somaiya If I understood well that you have done a great job in capital expenditure brought it down to Rs. 5 crores you have done lease model, , that is how you have brought this capital expenditure down to so low and this is how the company would have a lot of cash flow, is that right what I've understood?

Dinesh Jain Absolutely I think CAPEX in this quarter was low but I think the next quarter we may have some CAPEX but again I think we leverage through operating lease where I think we want to add.

Neeraj Somaiya One last question, would you look at any impairments right know or do you think now MedAssist and all things are looking much better in medical because companies have sold at two-time sales, do you think it is fair valuation or do you think would you take any impairment and what would you view be on the MedAssist acquisition earlier done?

Rajesh Subramaniam At this point of time given how the whole industry is playing itself out and where we see ourselves the carrying value is lesser than the fair value, so at this point in time our entire healthcare business which we see as one operating business unit there is no merit for impairment but obviously we test it on a quarterly basis, it is something which is chaired by the auditors in the audit committee headed by Mr. Y.H Malegam, so we do take a look at it very seriously and at this point of time as I said the carrying value is lower than the fair value.

Neeraj Somaiya And when do you think the dividend list would be possible in two years, coming back to a dividend list paying company that gives a lot of confidence to the investors that things are on track after so much of turmoil that Firstsource went through two years back when you see that maybe 12 months or three or four months?

Rajesh Subramaniam Right now the focus is to get this $56 million, $45 million and $11 million out this year. Next year we will see how our business performs and if we do post our growth and investment initiatives obviously repaying loans would not be a problem if we do have any surplus that we believe we can distribute will take a look but it is too early for me to comment at this point of time.

Moderator The next question is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

Amitabh Sonthalia Just a quick balance sheet related question, what is your latest debt figure is it roughly the same, has it gone down is it fair to assume that it is gone by $11 million since March because it is not reported in your presentation?

Rajesh Subramaniam That is right because my debt number on our quarter-on-quarter basis because of the rupee movement of Rs. 5 will show an increase but that is only on consolidation but if I took take a look at my net long-term debt today it is about $167 million, the working capital debt I have is backed by current assets so that is a scratch and I see is a head room of NCA is more than the margin I need on the working capital line, so yeah from a long-term perspective it is about $167 million.

Moderator As there are no further questions I would like to hand the floor back to the management for closing comments. Please go ahead.

Rajesh Subramaniam Thanks everybody for your time, we really appreciate your interest in our company and I know a lot of you have been on these calls for quite some time, it has been a very interesting turnaround for us as a management team, we have got a new promoter whose solid backing is so driven us in the wings as we look into the future and I really look forward to interacting with you on our next earnings call and in the interim if you would have any queries, Ganesh, our Head of IR, would be more than happy to deal with your individual questions. With that I will hand it back to the moderator to close the call.

Moderator Thank you gentlemen of the Management. Ladies and gentlemen on behalf of Firstsource that concludes this conference.