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Q2 FY2014 Earnings Call Transcript – October 24, 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 Two Earnings Conference Call, Q2FY14

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Moderator Ladies and gentlemen good day and welcome to the Firstsource Solutions Limited Q2 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "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 at Firstsource Solutions. Thank you and over to you, sir.

Ganesh Iyer Welcome everyone and thank you for joining the Q2 ended September 30th, 2013, Earnings Call for Firstsource. Please note that the results, fact sheet, and the presentation has 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 CEO and Mr. Dinesh Jain – our CFO. We will be starting this call with the 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 construe as a forward-looking statement must be viewed in the conjunction with uncertainties and risks that 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.

I just like to point out that the cash flow statement that we have sent out to you, should be read as H1 instead of Quarter ended September 30th, 2013. With that said I would now turn over the call to Mr. Rajesh, our Managing Director and CEO.

Rajesh Subramaniam Good afternoon everybody on the call and thanks for your time for joining our Earnings Call.

In Q2, the results that we announced, our Q2 FY14 revenues came in at Rs.7908 million compared to Rs. 7176 million in Q2 FY13. Year-on-year we have grown 10.2% in INR terms and flat in constant currency terms and quarter-on-quarter at 10% in rupee terms and flat in constant currency terms. The flat constant currency terms should be seen in relation to the more than 1200 employees that were separated from the company and I will talk about how it will impact us in the future and going forward subsequently.

Operating EBIT Q2 FY14 came in at Rs.691 million compared to Rs. 452 million in Q2 FY13 and Rs.624 million in Q1 FY14. The year-on-year growth has been 53% and margin expansion of 240 basis points from 6.3% to 8.7% year-on-year and quarter-on-quarter the absolute growth has been 10.7%. Reflecting the margin expansion, profit after tax in Q2 FY14 was Rs. 448 million compared to Rs. 359 million in the same period last year and Rs. 410 million in Q1 FY14. The year-on-year growth of 24.5%, margin expansion of 70 basis points from 5% to 5.7% and this should be seen in relation to the fact that there is additional debt on the books, the interest cost of Rs.22 crores that we are paying towards our loans was in interest earning mode the same time last year given there was a positive carry between what we were paying and what we were earning, the funds which we were used to repay the FCCB. So overall it has been a performance that we're happy with, given the margin expansion strategy that we had laid out earlier which are bearing fruits.

On our H1 basis, that is April to September period H1 revenues for FY14 came in at Rs.15,099 million compared to Rs. 13,928 million in H1 FY13, it is 8.4% growth in rupee terms and 2% in constant currency terms. The operating EBIT for H1 came in at Rs. 1350 million compared to Rs.786 million same time last year, a year-on-year growth of 67.2% and profit after tax came in at Rs. 858 million compared to Rs. 649 million in H1 representing a year-on-year growth of 32.2%.

The other highlights – cash and cash equivalents of Rs. 1500 million as of September 30th, 2013 compared Rs. 1530 million the previous quarter, we repaid a second principal installment of $11.25 million of our long-term debt on September 30th, 2013. Employee strength is 30,390 and as I had mentioned that there was a net reduction of 1233 employees in Q2 FY14, slightly above 50% of these in our domestic business as we are culling the herd for non-profitable lines of business and accounts and out of this, almost 400 of the 1233 was for one of our Telco's in Manila, an International client that we work for which is still in the process of ramping down and ramping this business down will add to profitability going forward.

Attrition onshore India and Philippines, 57.3% compared to 52.7% in Q1. Onshore US and Europe 47.4% compared to 40% in Q1 and in the domestic business 85.6% compared to 101%, largely on account of attired resources being redeployed for other business. Seat capacity and utilization, 23,664 seats worldwide, 47 delivery centers, Seat fill factor at 80.8% as on September 30th, 2013 compared to 82% in Q1. We have some balancing CAPEX to increase the seat based on the growth that we see including setting up a new center in Cebu, Philippines. Some part of it was capitalized in Q2 which will continue in Q3, it is for a banking client which we have signed up with and which is going to grow in Cebu.

On FX hedges, outstanding FX hedges are $27 million, £46 million and AUD 5 million. The next 12 months 83% coverage at Rs.60 level for USD, 88% coverage for the British pound at 94 levels and 84% coverage for the AUD 59 level. On a forward 12 to 24 months basis just under 20% for the USD at 68 level and 45% for the pound at 103 levels, so that gives us the tailwind going into the next year.

The other highlight is to look at how our revenues stacked up by geographies, by verticals, delivery location and client concentration details:

By geography North America continues to be the largest market at 46%, UK it is about 36% and India including rest of the world is 18%, so the ratios have largely remained pretty much the same between the three periods under comparison. The decline in the India business is reflecting in those ratios trending down. By verticals telecom and media still continues to be the largest vertical on the back of significant growth coming in from our largest client in the media segment. Healthcare came in at 32% and financial services at 22%. By delivery location 69% of our business is delivered Onshore, 21% Offshore and 10% domestic and as I mentioned we continue to see significant growth from largest client, so the largest client contribution to our overall revenues stepped up from 18% in Q1 to 19% in Q2, the top 5 clients broke ahead from 43% to 45% over the same period

I'll jump into the Slide #11 on the financial performance for Q2:

Our income from operations as I had mentioned came in at Rs. 7908 million, our operating EBITDA came in at Rs.895 million representing a 11.3% EBITDA margin, operating EBIT at Rs.691 million representing 8.7% margin flat year-on-year but 2.4% increase, flat quarter-on-quarter. And all that translated into profit after tax of Rs. 448 million as I had mentioned the interest cost this quarter was Rs. 229 million compared to Rs. 207 million and the delta between the two numbers is largely on account of FX translation and it does not represent any cash outflow for the company.

On H1 FY14, the salient features being, 8.4% growth year-on-year in terms of revenues and operating EBITDA at 45.5% growth year-on-year, margin expansion in EBITDA from 8.9% H1FY13 to 11.3% in H1FY14, operating profit expansion has been far more significant at 3.1%, margin expansion between, Rs.786 million in H1FY13 to Rs. 1315 million in H1 FY14.

So I'll jump now to the business outlook:

Again FY14, we expect moderate revenue growth largely on the back of culling the herd for non-profitable accounts and investing in profitable growth which has been the discipline that we have been maintaining. The strategy for the company is to focus on the Customer Management business and the Healthcare businesses and those investments are paying off. The growth in the Customer Management business with pipeline build up has been very robust and existing customers are breaking away as they grow in their business and they look to sign up to new product type services that we're bringing in terms of expanding our services. The Healthcare payor continues to be grow, the consolidation process continues, we will see that continue into Q3 and these are largely accounts in Customer Management predicated growth on the international business, I spoke about one of our operations in Manila. In the domestic business which everybody knows and there are some accounts in the provider businesses that are in US where the cost of servicing is more than the revenues we are generating and we believe we could reallocate those resources to the opportunities which have been thrown, thanks to the enrolment process which have now become mandatory from October 1st for the next 12 months when we see almost 30 million to 35 million Americans being enrolled into the Healthcare exchanges, so pretty excited about how it is going to play going forward in the next 12 months. The collections business continues to face headwinds, it continues to be a problem area for us, this business is underperforming, the environment has not supported improvement in liquidation rates, this business we are going to harvest it for value and once liquidation rates improve we will see it contribute positively to the margin, so this business remains margin dilutive for us.

So going forward, our margin expansion will continue, efficiencies in the business will play itself out. We have guided for some 12% to 12.5% of EBITDA for FY14. We will be able to deliver on those commitments. We expect Q3 which is seemingly a weak quarter because of the holiday season, in customer markets, it is going to be a soft quarter, and we will continue to see the impacts of the terminations in our domestic and some of our international businesses. We will see it in Q3 and based on the projects, the businesses that we have signed up where the existing customers and new customers in Q2, we won about $33 million of business which we will execute over the next 3 to 4 months, so there is going to be significant cost of growth in Q3 which will start contributing to revenues in Q4 and superior margin profile because a lot of this growth is offshore and in India and Philippines. So margins in rupee terms is expected to remain flat largely because some of the restructuring costs that we had to undertake for terminating some of these accounts will affect our profile there has been some impact in Q2 and there will be some impact in Q3 and of course the cost of growth in ramping customers but there will be a margin percentage expansion but the margins are absolute are likely to be flat with a slightly upward biased with some help in some of our consumer facing customers which can scale during the holiday season and we are very positive about Q4 because in Q4 we believe we would have very close to our end state of the kind of profile of business we would like to execute going forward and Q4 the margin expansion will be pretty evident and quite significant compared to prior quarters which will help us cross to 12% threshold in EBITDA and our solvency levels are improving, we are generating $12 million to $13 million of cash flow every quarter which is helping us service our interest and principle repayment and expect that to continue going forward and overall we are very positive as we look into the future. So that is all I have with that I will hand it back to the moderator to open it up for questions.

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

Srivatsan Ramachandran Just wanted to get your sense as to how the order booking in the last six months have been, would most of the deals which we had in at the beginning of the financial year what we expected to close in the 1st half has been closed and how is it shaping up and so that it can give some idea on how FY15 will look like?

Rajesh Subramaniam The deals that we expected to close; some of them have been delayed and some of them have got bunched up which is why we are going to see the impact of cost of growth in Q3 which ideally it would have been better if it had been smoothened out, but from our run rate basis what we expected from largely our existing customers has come through, there a couple of consolidation efforts in our customer base, one we won that is an Australian client and one we lost which there is an impact of a ramp down both Onshore and Offshore. The Onshore was margin dilutive, the offshore is margin accretive, so has the combination but that has been mitigated by some of the additional offshore growth that existing customers have signed up with which was not planned. So overall we are in a very good situation in terms of the quality of revenue going forward and Q3 we will see a little more impact on revenues being muted because one of our domestic customers we're going to terminate between November and December so that will be a step down in revenues over the quarter and that is gross margin loss that will be hugely accretive from Q4 and the other account in Manila almost 400 people that will give me a $2.5 million upside in my profitability next year starting from sometime in February but it is likely to give me a huge uptake in my profit. So from a revenue perspective the Customer Management business has done well despite some of the consolidation loss that we saw. The payor business is growing at about 15% to 20% that is doing well, collections portfolio is subnormal it is what we expected to achieve, we would be about $2 million shy in revenues and the provider business is likely to remain flat with a slightly downward bias again largely because there have been certain scope changes which will impact both the margins because of the cost of growth, because of the enrolment that we have been timed up by our existing customers, thanks to Obamacare which is going to see us ramp some of our employee base in that business in Q3 and going into the next year. So from a portfolio of business there have been businesses which have underperformed largely the collection business, the provider business to where we thought we should end this year will come in under, but we have set up very well for the next 12 months and the Customer Management business will deliver to plan and the payor will exceed the plan.

Srivatsan Ramachandran My next question you did mention that you are confident of 12% to 12.5% EBITDA margins for the year, so that means it is quite a punchy growth in the last quarter it is possibly north of 200 bps expansion, so just wanted to get as to is there something that you guys are also looking at?

Rajesh Subramaniam Right now where we sit, if things go well we could be anywhere between Rs. 805 crores to Rs. 810 crores in revenues in Q4, which again will be not normalized, it is not going to be for all the three months of Q4, so Q1 we will see the impact of a full annualized base of all the ramps which are happening and this will be backed by collection seasonality and backed by some of the cost of growth in Q3, we definitely see a margins uptick, our EBITDA margins could be anywhere between 12.8% to 13.2% in Q4.

Srivatsan Ramachandran My next question is on the debt outstanding, it will be just helpful if you can just outline what are the debt and what all currencies you have, we know that there is this term loan of 157.5, outside that the working capital and other things what all currencies and what kind of rates are we having it and how much of it is outstanding?

Rajesh Subramaniam The outstanding long-term debt, the net debt is about $155 million that is all USD it is in our US subsidiary and between $45 million plus $11.5 million of interest about $56 million, up to $46 million is using the cash flow that is generated in dollars and pounds with US and the India supports the repayment of about $10 million-$11 million which is again as a natural hedge based on the open covers that we have. Then we have a $20 million ECB on the Indian books which is a part of that $ 155 million, so the net debt of Rs. 155 million includes the $ 20 million ECB which is on the Indian books, the repayment is roughly about $100,000 a year for the next three years and then there is a bullet repayment in 2017, so despite the currency movement I'm not too worried given that the US dollar book that we have that can easily service these repayments when they are due in 2017. And apart from that on the working capital side, we have a working capital of about $30 million in our UK subsidiary equivalent of $30 million, which are backed by receivables with a huge headroom in terms of margin of safety.

Srivatsan Ramachandran Nothing much on the rupee domestic working capital line or anything that you have?

Rajesh Subramaniam No.

Srivatsan Ramachandran In terms of taxes just we have been having very benign taxes in FY14 effectively, so how long do you think this tax shields will sustain, will it kind of play out through FY15 also?

Dinesh Jain Yeah I think the India tax liabilities will remain almost I will say 0 or 2% to 3% for at least for next year also, so I think we will see the tax rate overall between should be between 8% to 10%.

Srivatsan Ramachandran For FY15 also?

Dinesh Jain Yeah.

Srivatsan Ramachandran Any outlook on the CAPEX?

Rajesh Subramaniam So CAPEX we have spent about Rs. 4.7 crores in Q2 and year-to-date we have spent about Rs. 16 crores, we are likely to end the year at about somewhere at about between Rs. 25 crores and Rs. 30 crores largely supported by some maintenance CAPEX and setting up a new center at Cebu.

Moderator Our next question is from Hitesh Jhaveri of Birla Sun Life Asset management. Please go ahead.

Hitesh Jhaveri Could you give me some outlook about what is the growth that you would be expecting in your second tier clients, you top 5 out of the 45 revenue but when you look at the next 10 or the next 15, what kind of momentum do you see from them?

Rajesh Subramaniam I think our top five is about 45%, we work for 745 plus hospitals where the largest client is about $3.5 million, so if I exclude that segment which will grow on the back of Obamacare, the long tail we have in between, the growth rate I would like to believe in quite a few of these clients we have a significant wallet share and it depends on how those customer segments grow. So at this point in time I do not have ready number as to what that mid-tier segment and the long tail segment, the intersection of those what the growth rate will be but the top five clients I'm extremely confident will continue to grow based on the visibility we have going into the next year.

Hitesh Jhaveri Could you talk about your client acquisition engine through all the 3 verticals and in fact geographies as well, especially for North America and for the European potential customers, what changes would you have made in the last one year or so in your client acquisition capabilities, strategies, people, orientation, people that you're targeting and what kind of results are you getting as of now?

Rajesh Subramaniam I can give you an answer in 3 min or in three hours but I'll choose 3 minute right now. So if I take at the look at the various businesses we have, let me start with the Healthcare business. So in the Healthcare business we have a new team, we have re-energized the business unit with new additions to the team right from the leadership to the sales organization and augmenting our CRM which is the account managing management organization, so that team has been changed and as I had mentioned we are sitting squarely at the opportunity presented by Obamacare and we are more than 200 amendments to our contract on existing clients who have signed up with us to enroll American gone to the Healthcare exchanges, so that is going to represent a nice uptick going forward. On the payor business ,the growth rate are predicated again from existing clients and new clients and this business unit will continue to grow at those rates for the next couple of years and the sales initiatives have now improved to focus on productizing our solutions around the platform that we have be it around workflow, be it around some of the claims adjudication capabilities that we have with basically ensures faster turnaround time and you will know that with the Obamacare plan, the cost to serve, needs to come down because that is the only way the payors will be able to price their policies competitively as between 30 million to 40 million American come online into the insurance segment. So very excited about what is happening on the payor, very excited about the solutions that we have there. The other large business unit which is 50% plus our revenues is Customer Management and here given the impact the top clients have going forward both on our revenue and profitability we obviously have sales and marketing and CRM team which are based in the geographies, we have solution architect based in India, we have now created our business transformation office which creates the solution around Analytics, around Digital strategy which we have used very effectively in deepening our wallet share with clients. So very, very concerted focus in creating more capabilities to penetrate wallet share and then move the margin profile from where we have been historically to where we think we can get to over the next couple of years, so does that give you a sense of what we're trying to do?

Hitesh Jhaveri I quite appreciate this and if I can sneak one quick question and I would have understand in case the answer needs to be briefed is that I'm just wondering that over the next 12 to 18 months how optimistic do you remain based on the initiatives taken in the quite meaningful turnaround that has been engineered by you and your team here about how diversified business will be, how de-risk business would be and what will be the growth profile of the company, sorry for the longish question but I would appreciate some colour here?

Rajesh Subramaniam As is said the growth is around Customer Management and Healthcare and Customer Management international business delivered both abroad and in India and Philippines and Sri Lanka which is a profitable business profile for us to be in and Healthcare payor will grow above what we have seen for other players given we work for the 5 of top 10 payors in the US. Provider business - significant historical baggage which is been cleaned out and now in the process of getting back to very good growth rates next year. I do not want to hazard a guess on the provider business because the whole Healthcare, Obamacare enrolment process itself the range of numbers can be significant, so it is from October 1st that these processes have started, in three months the next Earnings Call I will have a lot more clarity in guiding to where that business would head in the next couple of the years. So overall between culling the herd which will be hopefully done by Q3, Q4 as I had mentioned will be representative of the profile of business we would like to significantly grow and the productization initiative which are started to bare results will have a material impact in terms of how we deal with our clients and how we improve our wallet share, so at this point of time I do not have numbers to guide you on but I think as a management team we had earmarked three phases in the last couple of years, first was that at FY13 to emerge out of some of the problems that we had in 2012, FY14 was to consolidate which we have done very well, FY15 will be to break out and a surrogate for where we see FY15 would be definitely another 200 basis point improvement in margins based on superior revenue profile and I would believe that FY15 our revenue guidance would be at industry growth level at the minimum.

Moderator Our next question is from Mahesh Bendre of Quantum Securities. Please go ahead.

Mahesh Bendre Just wanted to know what is your outlook for the volume growth for the next year and given utilization for the current quarter the seat fill factor was 81% which were sequentially down by 1%, so how this parameter you see over the next 12 to 18 months?

Rajesh Subramaniam I think seat fill factor would have improved but for the fact that an existing client in the banking space wanted us to go into a new city in Philippines to set up and wherever our customer takes us we will invest to grow and deepen our relationship, so seat fill factor we get into an investment cycle on CAPEX once we start hitting the (+90%) threshold, I think we still have significant room in terms of improving our seat fill factor, barring setting up centers for clients in geographies which hitherto we have not been or setting up centers for clients in their preferred location where they believe services should be delivered and there could be a potential mismatch from where we have capacity and where we need to set up capacity, so barring for those adjustments I believe that there is no reason why over the next couple of years we cannot inch up beyond 90% fill factor post which we will start getting back on the investment mode.

Mahesh Bendre And the employee net addition has been a negative, I think how long this trend will continue, where do you think stabilization will come?

Rajesh Subramaniam As I said the employee reduction is a function of culling the herd and some consolidation which has happened and as I said Q4 will be representative of the portfolio of business that we would like what will grow from beyond there which will again signify a growth rate in Q4 which will then be representative that we step up for

FY15 and beyond. A short answer is definitely by Q4 we will see the revenue growth being evident after culling some of our non-profitable historical clients.

Mahesh Bendre Attrition rate has come off but still seems to be high, any view on that?

Rajesh Subramaniam No, attrition rates have spiked a little bit this quarter and we are creating interventions to manage this. For me attrition hurts me when employees on the delivered services have been trained, have come up the learning curve, where the company has made significant investments and once they stay beyond six months, and they attrite post 6 months up to 2 years that is when it hurts our operations in our Customer Management business, so that is where we're trying to create interventions to reduce that attrition, so there are certain specific programs we are running that hopefully will bring the attrition in that bucket to even if it is 100 basis point reduction in that bucket will improve our margins and revenues because there are opportunities of not leaving revenue on the table for some of these attritions we expect to happen. So we have the Analytics around that and we're doing it. In the collections business and in some of the businesses where we have attrited clients, the attrition rates will be higher because what will happen is a whole bunch of people will be separated from the company and that spikes attrition, so as we get back to as I said in Q4 and beyond hopefully it will start reflecting on how our attrition rates also will be hit.

Moderator Our next question is from Niraj Somaiya of Rose Red Management. Please go ahead.

Niraj Somaiya My first question was again your top 5 to 10 customers have now become 45%, how will retain them and your top customer is 19% which is a very positive thing but how would you retain and how would you grow these top 5 to 10 customers because these are the main paying customers?

Rajesh Subramaniam On our top 5 customers and our top customers, in our top customers we are the largest partner with them. We have 70% of their outsource estate is with us, customer has been with us for almost 12 years now. It started out as a $1 million customer, I do remember in my early days at Firstsource it is now $100 million plus, so if the customer whose business model is robust and unfortunately we cannot sometimes choose our customers, but these kind of customers are good customers who are doing well and their target markets with a very superior product profile automatically translates into the kind of value added services that we have also evolved over the years and so retaining them I think given the $ (+100) million it is truly strategic in nature. Among the other four customers, couple of them would be banking customers and here again we will have a large wallet share and these are long-standing relationships that we have with our customers. One customer in our top 5 is somebody that came in two years back and they have had problems of their own, they have gone through receivership in the markets they operate in which is equivalent of the bankruptcy courts of US and they have come out of it successfully, but there are stressful operational issues that we are dealing with. So that customer, while is not growing, we believe still is the largest telecos in the country they operate in and once they emerge out of some of their problems, we should be in a good position to grow with them as they start looking at improving their operations and reducing their cost base. So the top 5 customers for me which are largely in the Customer Management business will break out and grow a lot faster, so this percentage might increase but we are creating interventions in the provider business where the contract sizes are small because our largest customer would be sub $5 million but the growth there, the margin expansion in that business can be significant. So a very judicious combination of how we invest and grow our top 5 or top 10 customers and how do we create very superior margin profile in businesses that we have the ability to do so will bring the entire Enterprise profile going forward to a much better position than what we have seen historically and how we will end this year.

Niraj Somaiya What I meant was there is stickiness to these customers, right, even they cannot move so easily, even when they have $100 million commitment to you, so maybe for the next two years or 1 to 2 years you see the visibility, in the top 5?

Rajesh Subramaniam Absolutely, these are long-term contracts and we do not have any project based revenues with these customers. These are annuity businesses, the growth or the softness is entirely predicated on their businesses that they operate in the countries where they are based out of. So the good businesses are growing because of where the customers are and these are long-term contracts and these are sticky businesses.

Niraj Somaiya Second question on the goodwill, I continue to ask this every time but goodwill has increased this time by Rs.136 crores I presume that it is all because of the rupee and dollars change, right, that will be goodwill increased?

Rajesh Subramaniam Absolutely.

Niraj Somaiya As a management team ,you guys have got profits and now you guys have got size, would you ever look at the impairments and when do you think that be a good time to maybe one year from here or what are your thoughts about the goodwill because that will make the balance sheet leaner and meaner, it is always good to have that, in the long run?

Rajesh Subramaniam I think, as we have discussed in the past we test the goodwill for impairment because it is not that at a point of time, it is based on where we believe the carrying value of goodwill is in relation to the intrinsic value of the business and is not measured at a point of time but absolutely as we have written -off Rs. 90 crores of goodwill.

Niraj Somaiya That is a great step.

Rajesh Subramaniam And we will keep evaluating it and we will take appropriate measures because it is in my interest to, at some level to be very candid to try and shrink my balance sheet and which will automatically improve my Return on Equity and Return on Capital Employed ratio affecting the true performance of the company. So absolutely very valid point but at this point in time we're not doing it because we have just come out of two years of very poor performance which led to our breaching covenants on debt and equity, debt EBITDA and all those covenants, this year we're actually in a situation where our interest rates might go down because we have done much better than where our covenants should be, so once we get to that it will be a good proposition to have with our lenders also to help us restructure our balance sheet but nothing planned in the near term but absolutely on our radar.

Niraj Somaiya Assuming that the repayment of Rs. 11 million, you have brought your telecom business down all those things steps you have taken right, your top clients have stabilized, so where do you see your capacity can go without more addition maybe Rs. 4000 crores, if today you have almost 80% utilization, you say that you can go as high as about 90 to 92 ,would that stand still hold true, would that be possible to go up as high as 90 to 92 in the last call that you mention or would you need to reinvest or how would you take this from maybe one year. I understand you have all set, may be from two years perspective, how would you take this forward and how would you grow to that, the growth which is sustainable over the next 2 to 3 years?

Rajesh Subramaniam Absolutely, as I mentioned assuming ceteris paribus I can take this up to 92% to 93% if the customer growth that comes into the capacity that I have but there are times when customer would like to say, ask us to set up something in Mexico, one customers ask us to set up something in Cebu where we have capacity in Manila on that basis it is difficult for me to predicate how that will move but those will be incremental capacities of anywhere between 300 to 500 seats which will come online but on an existing bases absolutely right I think we can ease with the current capacity that we have with balancing CAPEX, with tech CAPEX is the only thing I need to invest, we can easily support between $75 million to $100 million of incremental revenues, would be my guess, maybe those numbers will be slightly lower because again each customer will have their own nuances in terms of them how they would like us to operate because ultimately we are working on the brand of our customers. So my sense is for the next two years assuming ceteris paribus absolutely, I can fulfill my growth requirement with the some balancing CAPEX I need and if customers want us a set up new capacity that will be priced in the deal to be made margin accretive.

Niraj Somaiya One more question to add to this like the big ones, the big three independent guys either they have gone in and acquired a software company or they have gone and being a pure Analytics company, would you acquire or would you sell in the next five years, a little longer vision or would you become a software company so that to get better customers, to have more stability and visibility, what would you do over the long period or would you acquire a company somewhere maybe I understand still far away from now but what would you sell, would you acquire a software company or would you buy another Analytics company and what sort of do you think will you would take as the step or would you do?

Rajesh Subramaniam Two questions over there, one is let us take the one which we are on the Analytics side because a lot of a productization initiatives are predicated on a robust Analytics methodology which we have built in-house and we are augmenting it by working with the universe of start-up companies who have outstanding product development capabilities which we are embedding within our portfolio and getting them to white label some of these services working with our core service propositions and getting into our customers. So I do not want to acquire them, I think at this point of time our initiatives are around Analytics are to see whether the proof of concept works and can it scale, so we have multiple conversation and POCs which are being worked on right now and I'm choosing them from the early start-up universe because it is easier for me to then create investment opportunities within them to align them closer to my strategy and then depending on how that scales I can then potentially look at acquiring them over 3 to 5 years but at this point in time I am ensuring that the proof of whether the partnership works and is relevant to our customers and we are making to the customers is being played out and I think and we are seeing results with couple of partnership that we already have underway and as far as software is, we have people that write software within the company for our own product, today I have a Sympraxis platform , I have an iLeverage platform which is a CRM product and I have people which have used to drive efficiencies within my service delivery, so I do want to go and acquire an IT company or a software company for the sake of customers because the decision makers in software at some level is different to that of a business head that we work with but we are building capabilities to enhance our own service delivery and make our MI a lot more robust than what it has been historically.

Niraj Somaiya When would you come in for dividend payout, maybe a dividend may be one year, two years from here or you think it is a little far away, from yet to answer this?

Rajesh Subramaniam I do not want to speculate on this but all I can say is that our cash generation will only improve and our solvency will only will get much better from where we are and it is the decision of the board and the shareholders we will take at an appropriate time.

Moderator On next question is from Ankit Pande of Quant Capital. Please go ahead.

Ankit Pande I just had one question on the UK led growth, could you give us an update on the couple of clients that we have and what is the profile of margins that we can expect and their contribution to the top line?

Rajesh Subramaniam I think without naming my customers, the two or three clients that we're ramping up which are UK clients we are ramping one of them in the UK in Belfast and we are ramping the same client in India, the other a client we are ramping both in Philippines and in India and these are high margin businesses, these are fundamentally embedded in the black box for our customers, be it in mortgage services and the under writing support or in the entire digital strategy of our customers in the way they deal with their customers and the way they sell and cross-sell more into their customers. So basically these two customers alone will provide the impetus for us in Q4 which we have started investing in Q2 and will grow significantly into Q3 and these are long-term contracts, so they will continue going forward.

Ankit Pande If the implication is that the pricing and the margins will improve, then I do assume that will come through only in FY15, am I right?

Rajesh Subramaniam It will start coming through in some part of Q4 and obviously full benefits in FY15.

Ankit Pande And the delivery is from the UK, is it?

Rajesh Subramaniam No, one client delivery in UK, the significant portion of the ramp up will be in India and Philippines.

Ankit Pande In terms of the workforce cut, the average wages seem to have expanded a fair bit I was just wondering if the headcount cuts is more towards the fag end of the quarter, so the average wages that I take are still expanding whereas the cut in headcount is significant, so just wondering over that?

Dinesh Jain No, I think that is the function of the currency consolidation because the last quarter average was around 56 to the dollar which is now 59, I think that is more function of the currency consolidation than being the really the actual increase or to the headcount reduction is real and that is during the quarter, it is not specific to the period end.

Ankit Pande The number of employees abroad I think the cut was pretty significant in the quarter, so is that the kind of rate that we can expect for the next couple of quarters?

Dinesh Jain No, I don't think that cut is significant, higher outside India, I think the domestic business where we have scaled down some of their bleeding customer it is more here, the UK also one of their customer which is a bleeding customer we have reduced the headcount but cannot be the trend for that because it is not that we're putting and cutting employees for the region being cost cutting, it is the function of ramping down the customer than anything else.

Moderator As there are no further questions from the participants, I would now like to hand the floor back to Mr. Rajesh Subramaniam for closing comments.

Rajesh Subramaniam Thank you everybody for joining in the call and as we had represented in all the right earnest we have embarked on a journey that hopefully will play itself out to the aspirations that we have as a management team, we have excellent suite of customers, our performance on margin expansion and profitable growth is actually playing itself out well and we look forward to your continued support and interest in our company. So thank you for your time today.

Moderator Ladies and gentlemen on behalf of Firstsource Solution Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.