Q4 FY2014 Earnings Call Transcript – May 02, 2014

CORPORATE PARTICIPANTS:

- Mr. Rajesh Subramaniam – Managing Director and Chief Executive Officer
- Mr. Dinesh Jain – CFO
- Mr. K R Venkataraman – President & CEO, Healthcare
- Ganesh Iyer – Head Strategy & Investor Relations

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Firstsource Solutions Limited Q4 FY-'14 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Iyer – Head of Strategy and Investor Relations at Firstsource Solutions. Thank you and over to you sir.

Ganesh Iyer: Welcome everyone and thank you for joining us for the Q4 and Full Year Ended March 31st 2014 Earnings Call for Firstsource. I apologize for the slight delay for this call. Please note that the results, fact sheet and the presentation have been e-mailed to you and you can also view the same on our website www.firstsource.com. 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 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 constituted as a forward-looking statement must be viewed in conjunction with the uncertainties and the risk that we face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and the subsequent annual report that we have on our website. With that said I would now turn the call over to Mr. Rajesh Subramaniam – our Managing Director and CEO.

Rajesh Subramaniam: Hello everybody and sincere apologies for the delayed start, it is just that closing our board meeting proceedings took a little longer than I had anticipated. Also on the call joining me today are our two invitees – K.R. Venkataraman who is our President and CEO of our Healthcare business unit and Peter van Riper who is the CFO for the Healthcare business unit based out of North America.

So having said that and made those introductions let us get into the specific metrices around the performance; our operating revenues for FY-'14 came in at Rs.3,106 crores compared to Rs.2,818.5 crores in FY-'13. Year-on-year growth was 10.2% in rupee terms and flat in constant currency terms; flat largely on account of some of the terminations that we effected and some of the terminations which we did not anticipate which affected during the year, neither of which affected our margins which you will see as we unfold the presentation. Operating EBIT came in at Rs.286.4 crores compared to Rs.191.2 crores and year-on-year growth of almost 50%. Margin expansion by 240 basis points from 6.8% to 9.2%. Profit after tax for FY-'14 came in at Rs.193 crores compared to Rs.146.6 crores in

FY-'13. Year-on-year growth of 31.6%, margin expansion by 100 basis points from 5.2% to 6.2%. If I pro forma the full year interest cost for FY-'14 and FY-'13 where our interest expense was from December the profit after tax actually has grown by 96% and margin expansion of 270 basis points so that is just to put the numbers perspective.

So what are the key highlights in terms of what elements of the business did well and what elements of the business we believe are expected to drive going forward. There was a significant expansion in the US Customer Management market, we secured a win from one of the largest telecom companies in the US; the TCV is 45 million over 3-years, and the go-live is expected to be in June 2014. As a common theme, terminating loss making businesses across the estate or lines of work with existing clients have helped in improved margins will benefit that we see in FY-'15. The Healthcare business continues to do well especially the Payer business has continued to demonstrate growth in excess of 15% and delivering margin profiles which are as per expectations. The Provider business we will talk about some of the initiatives we are undertaking including leveraging some of the enrollments that we have seen and how we are positioned going forward with our customers. BFSI, Customer Management business especially in the UK is doing very well. One of the largest banks in the UK have set up with us in CEBU; it has gone live in Q4, expected to scale through next year. We have also won a couple of new logos in the banking segment in the UK – a combination of customer service and contact center work and some lines of work around complaints management around misselling of insurance products.

The other highlight… we repaid $45 million of loan as was planned and committed. We also have significant focus in developing productized services in continuation of the momentum we generated in FY-'13. This year we had (FCI) First Customer Intelligence, FirstChat, First Resolve and First Smartomation, which are out in the market, which are embedded in our customer service offerings which are opening doors from creating consulting opportunities with new logos as they set themselves up for large scale outsourcing assignment either through an RFP or through a negotiated approach. Testimony is some of our productized offerings have won accolades and awards in the marketplace.

Some of the other laurels during the quarter, many awards essentially in a bucket of partnership with our largest client we were the BPO Project of the Year 2013, we were the Outsourcing Services Provider for the Year, we also won several awards from the European Contact Center and Customer Service Agencies.

As far as Q4 is concerned, Revenue came in at Rs.796.2 crores compared to Rs.712.5 crores in the same period last year and Rs.799.8 crores in Q3. Year-on-year growth of 11.7% and a (-1.4%) in constant currency terms. Q-on-Q declined by 0.4% in rupee terms and grew by 0.6% in constant currency terms. Operating EBIT Rs.80.8 crores compared to Rs.61.3 crores in Q4 last year, 74.2 crores in Q3 of FY-'14. Year-on-year margin expansion of 32% and margin expansion by 150 basis points to 10.1%. Quarter-on-quarter growth of 9% margin expansion of just under 1% from 9.3% to 10.1%, PAT came in at Rs.58.8 crores compared to Rs.40.2 crores in Q4 FY-'13 and Rs.48.3 crores in Q3 FY-'14, year-on-year growth of 46.4% and margin expansion by 180 basis points to 7.4% and quarter-on-quarter growth of 22% and margin expansion from 67.4%.

We continue to generate cash, cash and cash equivalents of Rs.189 crores on March 31st compared to Rs.187.6 crores in the previous quarter. We repaid our fourth principal installment. Cash balances could have been higher but for the fact that as you are aware we did spend in setting up a new center in CEBU that earlier would have been a client scale up in Manila where we have capacity but it has happened in CEBU. So over the next 6-months we believe there will be new business in Manila which will scale, which will improve the seat fill factors, if not, we will see how we will rationalize some of the capacity which will hopefully absorb some of our unallocated cost and improve our gross margins.

Employee trend, again, consistent with what I have said in the past; net reduction of 2280 people towards the really the latter part of Q3 but effective in Q4 and through Q4 27,666 employees as on March 31st 2014, 17927 in India and 9,739 based outside of India. There has been a spike in attrition, nothing that worries me at this point; attrition moved from 49.2% to 54.8% because Jan, Feb, March is normally the season where at some levels some of the college grads are getting back to their final exams, so sometimes we see some spikes. Onshore increased by about 500 basis points in Q3, domestic came down from 92.8% to 85.6%.

Going to utilization as I had alluded to seat-fill the major highlights the seat-fill factor is 77% compared to 78.2%. The seat capacity rationalization will have a lag; we had 46 delivery centers compared to 47 as on December 2013 and we expect fill factors will trend up not in the immediate 3-months but over the next 6-months we definitely see fill factors trending up. As far as FX hedges are concerned outstanding FX hedges at $30 million, £51 million and AUD3 million. Next 12 months 87% of US dollars have been hedged at close to 64 levels, 88% for the British pound at 100 levels, and 74% of the Australian dollar at close to 60 levels. And the cross coverage between pound and Philippines Peso 21% has been covered at 74.5%. For the succeeding 12-to-24-months 25% of the USD covers are at 69.6% and 53% coverage of GBP at €110.

From a revenue contribution by geography verticals and delivery location, North America continues to be the largest contributor at 48%, has inched up by a percent compared to Q3 in FY-'14, and 2% same period last year. What you see is India which has come down from 20% in Q4 FY-'13 to 16% in Q4 FY-'14. UK has largely remained stable. By verticals you will see the uptick in Healthcare, up from 32% to 34% both sequentially and year-on-year, and T&M at 43% because we did see some of the domestic Telco clients where you see this impact and Financial Services at 22% which is largely on account of some of the ramp down we have seen one of our clients in Colorado Springs in our line of work which has resulted in this, but nothing that worries me at this point.

By delivery location, Onshore is 68%, Offshore is 23%, and Domestic is 9%. Client concentration between Q3 and Q4, our largest media client continues to grow, contributes 23% in our top 5 clients are 47%.

Financial performance slide, this primarily covers the point of view between FY-'13 and '14 and we have largely covered the elements of what has happened between the 2-years, salient features are around 10% growth in rupee terms, 50% growth in EBIT and 32% growth in net profit after tax, and statement I repeat is if you account for proforma interest cost for FY-'13 the same is in excess of 95%. On a Q4 basis both sequentially and 12% growth year-on-year rupee terms, operating EBITDA, margin expansion from 11.7% to 12.4% 20% growth year-on-year, operating EBIT 32% growth year-on-year and net profit after tax growth of 46.4% year-on-year which reflects the fact that Q4 of FY-'13 and Q4 of FY-'14 have interest cost reflected in full.

Business Outlook: Moving in to Q1 FY-'15 revenue will be softer than Q4, there is a seasonality fall off of the Collections business and the full impact by period terminations, low margins businesses and lines of work within clients. Some softness in the banking business that I explained to you; however, year-on-year growth of Q1 will clearly be evident, we do expect the uptick between Q1 and Q1 of last year to be clear, and margin expansion will be significant; Q1 EBITDA, EBIT, PAT will definitely continue the trajectory that we have spoken about in the past over Q1 of last year. FY-'15 revenue growth in our chosen segments – Customer Management and Healthcare, which roughly constitutes about 80% of our business, which will grow well 20% of our business which is in the domestic business and Collections will flat line to de-grow. The Customer Management – significant momentum with the existing clients; however I will caveat that some of the decision cycles are getting elongated, decision processes are getting delayed, but the relationship with clients are strong, and we do expect to see a significant uptick in Q2 and beyond. The Healthcare segment… I have two of my colleagues here from North America that can take specific questions but overall we continue to be very bullish on this market segment, and we fundamentally believe that the growth in the Payer segment will be superior to the Provider segment largely because the Payer segment is more of a B2B play whereas the Provider segment while it is a B2C play, it is a very fragmented market and decision cycles are of a different order of magnitude, but the opportunities are very attractive, and we are just plugging away to bring new products to the table. BFSI Collections cautiously optimistic; the optimism is on account of the fact that the inventory of debt placement has increased from 1.8 billion in Q4 FY-'13 to about 2.2 billion, which means there is a little more credit spending, people are leveraging. So what we are monitoring right now is the quality of liquidation rates, and we will hopefully come with some conclusions over the next 3-6-months, but the uptick in inventory of debt is definitely a positive….

Pipeline buildup continues to be robust; we have had amendments to the pipeline, some deals where decisions have not happened beyond 6-months have moved towards different tier and largely the two big left out deals in the Republic of Ireland – one from an American customer and one from a British customer which the decision cycles have been pushed out but we continue to see significant momentum in the businesses we would like to grow, which is Customer Management and Healthcare, and some and substance of all the initiatives we see margin expansion of 150-200 basis points between EBITDA and in FY-'15, and we will meet our obligations to repay $45 million in principle repayments through FY-'15. So that is it from me at this point. I will hand it back to the moderator to open for questions.

Moderator: Thank you very much, sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Aishwarya K. from Spark Capital. Please go ahead.

Srivatsan: Srivatsan here. So just wanted to get your thoughts on the year ahead; we have seen FY-'14 to be more a year of consolidation mainly on profitability and weeding out relatively lower no profitability accounts. How do you see revenue growth in FY-'15 – would you kind of look at a substantially higher constant currency revenue growth in FY-'15 vis-à-vis '14?

Rajesh Subramaniam: Great question, Srivatsan, earlier, our outlook was somewhere in the 8% to and with some luck 10% mark in terms of revenue growth, but at this point in time some decisions which were due expected in March-April have got delayed. We are in a strong position, but they have got delayed. So my expectation on growth which is good positive growth is it has more moderated to 6% right now, but we could see a spike in Q3 if some of the ramp-ups play themselves out, and the way I expect we will manage our margin profile is the fact that in Q3 the covers that we have essentially the pound and dollar move up by almost between 10% and 15% uptick on realizability which will hopefully negate some elements of positive growth. So FY-'15 will be a year of growth, but some of the growth elements have been delayed. Sales cycles are getting longer largely predicated on two vectors – one is lot of clients in the UK are relooking at their entire estate redesign, there are significant changes on the basis of engagement which is putting us in a better place than where we were looked at pure offshore vendors or pure vendors for a certain line of work. Similarly, in the US, the telecom client with whom we have added 45 million TCV, we expect by Q3 that relationship potentially could double that was expected in Q1 but that looks like it is going to get delayed because of certain reasons of where the current center was supposed to go live in April is going to live in June. So there are some tactical delays and some strategic delays on account of decision making, but 8% growth would have been good for us, but at this point in time I am comfortable with a 6% number, but I could revise that at end of Q1 call.

Srivatsan: And just wanted on constant currency basis?

Rajesh Subramaniam: On the constant currency, because this is based on the currency at which we closed FY-'14 on that basis I am committing to a 6% growth at this point in time.

Srivatsan: On the overall margin trajectory that we are looking at is about 150 bps is what on an annualized basis you were looking at it at the EBITDA level, just wanted to understand would FOREX be the single biggest driver of it or would there be operational elements that could kind of kick in and the EBIT expansion shall be slightly higher because we have been coming off a substantial D&A reductions. So just want to understand would EBIT expansion be higher than the EBITDA expansion?

Rajesh Subramaniam: Great question. It is a combination of all three; one is my EBITDA expansion, this is the year I have started significant investments in SG&A. So my absolute SG&A will increase and it is likely to increase as a percentage of revenue despite which my EBITDA will definitely show 140-150 basis points improvement. Now, what is driving this EBITDA margins? One is what I call acceleration of inventory in my Provider business where we have now created interventions to work on almost a billion and a half plus of inventory that are in various stages of completion, pending payer adjudication where we are driving a level of performance efficiency which will move the inventory and the relevant inventory map to the relevant optimized usage of staff and move the buckets for the same level of effort provided. So that is clearly one specific initiative we see, and as you see historically the Provider business the margin profile has been at about EBITDA of 14% to 15% but 14% to 15% EBITDA when somebody is generating revenues of $5000 per month, has a pretty material impact from a cash perspective, and a conversion of EBITDA to cash also is very efficient there. So that is one element. The second element which will drive some of the price indexations that we will get that we know on some of the contracts which are coming up, and this is largely applicable in the Customer Management business. The third element which you alluded too is the D&A fall off, we are back on the investment cycle, there will be a center in CEBU, that is getting capitalized, there will be a center in Louisville that is getting capitalized, there is a center in Tampa, Florida which is getting capitalized. So all this there will be a slight uptick, but as a percentage of where my revenues is it will largely remain at the same level aided by the depreciation fall off of the various domestic centers where we have invested on a CAPEX basis. And most importantly, the other margin expansion vector also is the full year impact of some of the loss-making clients we terminated based on the pacing ratio. We definitely see an uptick which will impact me at the EBITDA level in FY-'15. So, I am very comfortable in committing to the margin range… and of course the FX as you rightly pointed out will give me an uptick, and last year unlike some of my peers in the IT industry I did not get the benefit of rupee depreciation because of a forward 12-month hedging policy, but Q2 onwards we will see a clear uptick on exchange, but some elements of that given the bunching up of the growth will be used to subsidize some of the cost of growth elements in the business.

Srivatsan: In terms of the Healthcare business, I presume the Healthcare leader in the call can answer that, just wanted to get the perspective in terms of demand pipeline and in some sense competition also, because given the opportunity, is that something that we can see 15-20% CAGR for multiple years?

Rajesh Subramaniam: Sure I will get Venkat to answer that question.

K.R. Venkataraman: From a demand perspective, we are seeing a significant uptick in the opportunity ahead of us; we are seeing a good increase in enrolment that is expected to come into the marketplace with the Affordable Care Act taking into place. We already saw increase in enrollment coming from last year and we expect that to further expand as the open enrollment period comes up for this year as well. So the Affordable Care Act impact and the expansion of the business resulting from that, in itself is going to be strengthening our pipeline. We also notice that the existing clients as they go through their expansion in the marketplace they are going to start feeding more volume to us. So from that perspective also the outlook is very solid.

Moderator: Thank you. The next question is from the line of Vimal Goel from Sharekhan. Please go ahead.

Vimal Goel: Sir, first question is on the Healthcare space from where we left out in the previous question, the enrollments have been good, we have read the recent numbers, but sir there have been some political resistance in the USA, there was some issue with the website as well. So how do you look at a longer picture of this opportunity going forward? And have you factored in all these weaknesses while giving out a positive stance in the Healthcare opportunity in the US particularly Obamacare?

Rajesh Subramaniam: I will take the first part of the question and I will get Venkat and Peter to handle the second one, the first part is 6 million Americans were enrolled despite the technology glitches that we saw and overall they expect over the next 3-years about 30-35 million Americans to get enrolled, and I think given some of the state our foot print is I think we enrolled somewhere just under 200,000 people and the next wave when the enrollments open in October please realize that coupled with enrollment there is going to be a huge budget flush on Medicaid fund, which positions us very well especially in the space like Kentucky and Alabama where we fundamentally believe we have a very strong footprint in growing our footprint on the enrollment side and the related expansions in Medicaid, where the velocity of claims getting adjudicated and hospital getting paid we expect to become a lot stronger. So on specific opportunities, I will ask Venkat or Peter, if there are anything specific we are seeing either on the payer side or in the hospital network side which we believe is something could be bluebird going forward.

K R Venkataraman: From a new opportunity perspective there is definitely a significant opportunity for creating newer solutions and services for the new marketplace. As the Affordable Care Act comes into effect the way the payers do the business and the financial accountability of the providers is shifting the consumer orientation of the business is changing. So what we see as a significant opportunity is taking the Customer Management experience at Firstsource that the company has taking that into the Healthcare business and trying to support the Healthcare constituents improving their customer experience. That is where we see significant opportunity for us which are aligned with the current capability of Firstsource. So that is one area. And we also see opportunity for creating newer services. Now, as you pointed out the enrolment numbers are looking good, but what also needs to be understood there is While enrolment has happened not all of them have paid the premium, that is largely because how the payers have set up for accepting the premium and whether or not they get up for reconciling the premiums across the spectrum of the process. So, there is opportunity for billing and reimbursements and reconciliation in that space, for which we are looking at what we can do to build the capability and strengthen our position there.

Vimal Goel: My second question is on the deal pipeline…last quarter you gave us some numbers in the Customer Management space; you had a 40 million deal pipeline, in the US banking customers you had $20-30 million deal pipeline. Can you give us a number of the overall ACV of the deal pipeline currently?

Rajesh Subramaniam: The current deal pipeline across the state is in excess of $350 million.

Vimal Goel: What was this last quarter?

Rajesh Subramaniam: There have been amendments to the deal pipeline and the decision has been delayed, and almost $50 million of deals have been taken. So, the exact data in Q3FY14 it was $405 million, Q4FY14 our total deal pipeline was $371 million.

Vimal Goel: Sir, what is the hiring trend expected? You are on the crux for exiting most of your low margin projects. So where are we in terms of exiting your low margin accounts? And given the fact that how is that going to impact hiring going forward?

Rajesh Subramaniam: The attrition of the accounts that is now done, right now at this point in time where we are, and out of the 2000-2300 that we cut down more than 60-70% of those numbers would have been in the domestic market. So, whatever had to happen has happened. And if you take a look at the fact of where we were, we were almost 30,000-31,000 people at the start of the year and we ended with 27,000 people at the end of the year and constant currency terms our revenues have been flat. That will give you a measure of the efficiency of the revenue that we have which aids in margin expansion. Going forward, again, I do not want to say we will hire 3,000 people because our business is a right shoring business model, it is predicated on onshore/offshore and near shore. At this point in time all I can tell you is the deals that we believe will start continuing on growth which is evident from Q2, will be a positive attrition in terms of our employee headcount because most of the terminations that we had to effect on all stance. I will caveat it by saying that at this point in time the customer interactions in the domestic business are positive will lead to price increases rather than price reduction. So at this point in time the headcount will improve, I do not want to commit to a number because the mix of business of what gets delivered between the US, Philippines or UK, and India, these numbers keep changing.

Vimal Goel: So the bottom line is that in FY15 we could not see any headcount reduction rather, can we put it that way?

Rajesh Subramaniam: That is right.

Vimal Goel: Just some book-keeping questions…tax rate has come down very significantly in this particular quarter. Could you put some more color on that?

Dinesh Jain: I think normally the Q4 where you have a year-end you normalization of all your taxes which also include the intercompany transaction which happens there. Pro forma for three quarters and end of the fourth quarter you really put a real number. So normally the Q4 we see a slight change, but I think overall looks to be that is what we are looking to as 6% to 8% and we expect next year at least should be between 8% and 10%.

Vimal Goel: Do you expect depreciation to go down further because of the close out in the Colorado region or is it fully acted in this particular quarter?

Dinesh Jain: No, I think Colorado where a closure will be in the Q2, it is not going to impact.

Vimal Goel: So, what could be in terms of depreciation quarterly run rate going forward?

Dinesh Jain: I think as Rajesh explained to a previous question about the new addition to the investment which we have done, I think the depreciation on an overall basis will be higher side than the current year.

Moderator: Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: I had actually a couple of questions; Rajesh, in the last quarter we were talking about a two-three big deals which we are supposed to close this quarter. Have you able to win those deals?

Rajesh Subramaniam: The deals have got delayed; one was a big lift out of our Healthcare clients in the Republic of Ireland and the other was large banking client, and both these deals have got delayed.

Sudhakar Prabhu: These are the ones which you expect to be closed in the second half, right?

Rajesh Subramaniam: One of them and the other one is the scale up of one of our existing telco clients which we hope to get the decision by the latter part of Q1 or early Q2, scale in Q3.

Sudhakar Prabhu: And Rajesh, based on the outlook which you have given 6% growth, it looks to me that first half would be relatively flat and second half is the time when we will see greater execution, is my understanding right?

Rajesh Subramaniam: Absolutely.

Sudhakar Prabhu: My third question is Rajesh, you have been talking about for the last couple of quarters you have been working on with various smaller companies for analytics and product platform thing, any progress on that?

Rajesh Subramaniam: Yes, we have made significant progress and I am hoping you will see the results in the ensuing months.

Sudhakar Prabhu: What would be your CAPEX for the current year FY15?

Rajesh Subramaniam: FY15 CAPEX would be somewhere at about Rs.50-55 crores

Dinesh Jain: We are expecting between $8-10 million.

Sudhakar Prabhu: Since you are generating around Rs.130-135 crores of fee cash flow post your debt repayment, can we see higher amount of repayment of debt this year or debt repayment would be a similar at 45 million?

Rajesh Subramaniam: We will take a call on that at the end of Q2.

Sudhakar Prabhu: Dinesh, the interest cost for the current quarter was around Rs.20 crores. Would we see this interest cost reducing?

Dinesh Jain: Yeah, that is right, because we were paying 11.25 million every quarter, so quarter-on-quarter it will reduce.

Sudhakar Prabhu: And what would be the average cost now? And also the gross debt on the books?

Dinesh Jain: Gross debt on the books is 155 million and the net debt is around 125 million. Interest cost if the current year we are talking about Rs.80 crores, it should drop by at least Rs.10 crores, it should be around R.70 crores.

Sudhakar Prabhu: Rajesh, your ROE for the current year was around 10%. So do you have any target ROE in mind for the next 3-5 years which you are aiming for?

Rajesh Subramaniam: My target ROE is to get the business for 20-25% level which I think I should be able to achieve when I get to 15-16% EBITDA.

Sudhakar Prabhu: This you think will be possible over next 3-5 years or before that?

Rajesh Subramaniam: Hopefully sooner.

Moderator: Thank you. The next question is from the line of Dinesh Kumar from iWealth Management. Please go ahead.

Dinesh Kumar: I have a couple of queries; first one is since this is a seasonally strong quarter, actually what happened to have a flat growth, just wanted to understand on that parameter? And second is we were discussing about one of the clients was ramping down. So, actually what happened?

Rajesh Subramaniam: Answering your second question - one of our banking clients have gone captive, so they their own center and apart from the fact that there was a change in philosophy and that contributed to a ramp down with pretty much all vendors they were working - that is one. To the first question, if we take a look at the fact that it is a seasonally strong quarter, we should focus more on the margins and you have to factor in the revenue uptick on a like-to-like basis about a magnitude of a million and a half dollars, but also the fact that some of the accounts which we have terminated in Q2 and Q3 will start seeing reflection in Q4, some of the accounts terminated in Q3 you see the benefit in Q4, so you will see a rolling basis. The flat QoQ is on account of this and obviously, there will be some effect adjustment also on the hedge position.

Dinesh Kumar: How is our domestic business placed right now as you see saying some internal?

Rajesh Subramaniam: Absolutely, as I said the domestic business is making money, I think in FY14 we ended at about from a (-5%) in FY13 we came in at about (+3%) EBIT in FY14, and those numbers will trend up because there is going to be no growth in there.

Dinesh Kumar: So, we will mostly see margin growth than top line growth in that domestic business, is my understanding right?

Rajesh Subramaniam: Absolutely, as I said, 20% of our business which is essentially Collections and in the domestic business there will be no growth and all the growth that we spoke about will come from the rest of the 80% of the business

Moderator: Thank you. The next question is from the line of Jambo Ganesh from JJM Ventures. Please go ahead.

Ganesh: I have two broad sets of questions; firstly, for Mr. Rajesh Subramaniam, second would be for Venkat Raman, the first is while we have been seeing growth no doubt in top line and also in margin expansion, both last year and this year I have been finding the EPS stagnant, any thoughts on that?

Rajesh Subramaniam: Because the share count in December we had 50 million infusion, so until December 2013 our share count was closer to 441 million and post the change in control the share count is 657 million. So there has been an increase in the share count despite which our EPS has come in slightly higher compared to the previous year you are talking about.

Ganesh: So, would that mean that as the business grows during the next few years we would be able to also find that getting reflected in earnings per share too?

Rajesh Subramaniam: It will, because there is no more capital raising program, so all the incremental profit, the margin expansion, the EPS growth will be evident.

Ganesh: Second question is while we have always been hearing about various countries – Philippines, UK, USA and even sometimes in India, we have not heard anything at all about your Dialog joint venture in Sri Lanka, it has been about three years since we heard, so is it profitable, are you getting more customers in Sri Lankan country as well?

Rajesh Subramaniam: It is the profitable venture and we work with one customer which is the largest telco in Sri Lanka. To be very honest with you the results of that JV expectation was to get a lot more third-party business but that has not happened. So, the current operations are very efficient in making money, but it has not scaled because it is a single customer JV at this point in time.

Ganesh: Also, since this new promoter infusion – RPG Group, are we also finding new customers from the same group?

Rajesh Subramaniam: The first is RPSG Group. And as far as new customers CESC has become a customer at very attractive margins. It is small but still nonetheless it is a customer. Going forward, they have very strong domain capabilities in power; they have very strong consulting capabilities in utility segment. If there is any synergy in the market we operate in at a future point we will explore such opportunities, but at this point in time 'no.'

Ganesh: In the beginning you also mentioned a capital expenditure in Tampa, Florida operations. Is it for the Customer Management Centre or a Healthcare in operation?

Rajesh Subramaniam: That is Healthcare payer.

Ganesh: We have been finding a good amount of positive commentary on the MedAssist. The first question is on branding. I find there is a charity organization, non-profit firm is also in the same lane. Do you think this would affect the enrolments or impact to a main share perspective?

Rajesh Subramaniam: In all our domain such as we have not come across any conflicts. Right now, MedAssist which is clearly branded as a Firstsource company, is very well known in the entire eligibility service in the Medicaid Self Pay segment. So, we would take note of this, it is a good observation if it is true and we will explore this further. Nothing that has come to our attention. Thank you for bringing it up, we will take this up.

Ganesh: And the final question is I believe you have close to around 700 hospitals as of last year sometime. So, in terms of the market size, how many hospitals do you think you will be able to penetrate within USA?

Rajesh Subramaniam: Totally about 5000-6000 hospitals in North America and we currently work for 700+. I think at a fundamental level we have enough to do with 700+ right now and obviously, we have our sales force which are looking and hospitals which are extensions of national chain of the customers we have, for example, I have a customer where I am working for 10 hospitals would be in Midwest and southern part of North America, and I would be looking to add 10 more hospitals on the East Coast. So some of those initiatives are on, but fundamentally the initiative is both deepening and adding new logos. I think we have significant opportunities to look to deepen our opportunities with the existing clients and I expect that to be a big contributor of our revenue going forward.

Moderator: Thank you. The next question is from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: Rajesh, my question was just at the Healthcare provider prospects, last time there are some opportunities for us in the second half of the fiscal. So, could you please elaborate on that?

Rajesh Subramaniam: I think there are two product offerings; one is on the enrolment side, I spoke to you we enrolled about 200,000 people, and that is basically we have enough goodwill with customers and sets us up very well given the technology glitches are a thing of the past, and enrolment engine will increase. The other thing that we have done is …Peter and his team have developed a suite of 6-7 products over the last six months which is helping out with customers in both spectrum, what we call customers that are strategic where we know the efficacy of the product and its success, and customers which are in the bottom of the totem pole, where we are still in a discovery process and we can risk using them as a lap. So we have brought a couple of ideas to the market. One of them has got out because of some of the regulatory changes which came about post when we got the product at one of our hospitals network, we expect the regulations to change because it is commonsensical on some of the product ideas that it just works for the benefit of hospital than the patient. As I said, I have been consistent… the opportunities in the Healthcare provider segment will also go through a process of discovery, it is just that today we have a team, we have thinking and product development capabilities which is truly looking to leverage the customer franchise which historically we have not leveraged as much as I would have liked it to. The opportunities will keep abounding but at this point in time again I said in the past I will be very happy with asset growth between 6% to 8% or 10% because this is the year where we stabilize the asset and build relationship captive, we have the right management team, and hopefully this year will be the year of discovery which should help us scale going forward.

Ankit Pande: But this has not been factored into our growth numbers or expectations as I can read it like?

Rajesh Subramaniam: No, we have not, because what we have factored in is what we believe we know, and what we believe are some of the low hanging adjacencies in terms of extensions to our current capabilities with our existing customers, some of the white spaces ideas today have not been factored in because we do not know how they will play itself out with others.

Ankit Pande: Another one on the BFSI Collections, could you explain the slip up this quarter?

Rajesh Subramaniam: The BFSI Collections, one big fortune 500 bank we took out because it was losing money for us at the gross margin level and unfortunately though we ramped down Q2, the inventory went out in Q3 and what happens is the timing of such termination was the fact that in the tax season the customers would have been a profitable account because the liquidation rates are superior but despite that the unit came up with almost I guess $1.7-1.8 million EBIT which definitely is a significant improvement and as I mentioned with the inventory of debt showing an uptick there will be a follow-up in Q1, but we are hoping that… based on at least what we have seen in April Q1 of this year, should be better than Q1 of last year which then sets us up well from a year-on-year perspective.

Ankit Pande: Just one more statistical point, if you can throw some light on this…if the margin is supposed to improve through the year what could be the exit rate that we could see in Q4 of next year?

Rajesh Subramaniam: Exit rate in Q4 of next year I would expect an EBITDA profile of 13.5% with some luck a little higher but 13.5%, the numbers I am giving you is normalized for collection seasonality, including collection seasonality will be closer to about 14%.

Moderator: Thank you. The next question follow-up question from the line of Vimal Goel from Sharekhan. Please go ahead.

Vimal Goel: Just one data point… can you give me some more color on the….there is a big swing in the other operating income side. Why would that be?

Dinesh Jain: Other operating normally represents the forwards which we have and the rates which the revenue gets with, the difference between two is other operating income.

Vimal Goel: Rajesh has mentioned the reason because of the slip up in the BFSI Collections, could you just repeat that, I did not get that?

Rajesh Subramaniam: The decline in BFSI is one client where inventory went out which otherwise would have given me an uptick in Q4, for three quarters it has been bleeding cash and it is just a decision we have to take and right-size the number of collectors we had.

Vimal Goel: So you just exited that particular client, right?

Rajesh Subramaniam: Yeah, that is right.

Moderator: Thank you. Participants that was the last question. I now hand the floor over to Mr. Rajesh Subramaniam for closing comments. Thank you. And over to you sir.

Rajesh Subramaniam: Thank you everybody for joining the call and again at the outset I apologize for the delay in start. We will be very happy to take any questions, any follow-up that you may have. As I have reiterated it has been an interesting year. I think the last year did throw some surprises on some unanticipated setback but we also had positive tailwinds so the net result came out well. This is our breakout year, in case of any other queries, we will be more than happy to explain individually or however it suits your convenience. The Healthcare and the Customer Management businesses will be the poles on which we will grow, and Ganesh who is our Head of IR and Diwakar Pingle will be more than happy to take any questions which they will funnel back to me and to Venkat and Peter if you have any specific questions on the Healthcare side. So, thanks for your time and have a great evening. Cheers. Bye.

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