



Q1 FY2013 Earnings Call Transcript – July 31, 2012

CORPORATE PARTICIPANTS:

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

Firstsource Solutions Limited
Quarter One Earnings Conference Call, Financial Year 2013
July 31, 2012

- Moderator** Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q1 FY13 earnings conference call. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yash Gadodia from Christensen Investor Relations. Thank you and over to you sir.
- Yash Gadodia** Thank you, Marina. Good afternoon to participants from Asia and good morning to participants from Europe and US. Welcome everyone and thank you for joining us on the earnings call for first quarter of FY13 ended June 30th, 2012. Please note that the results fact sheet and presentations have been mailed across to you and this is also available on our website www.firstsource.com. To take us through the results and to answer your queries, we have with us today Rajesh Subramaniam, our Managing Director and CEO,
- Rajesh Subramaniam** Hello everybody
- Yash Gadodia** Our Joint CFO, Mr. Dinesh Jain and Deep Babur.
- Dinesh Jain** Hi everybody
- Deep Babur** Hi everyone
- Yash Gadodia** 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 construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks we face. These uncertainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent Annual Report which you can find on our website. With that said, I would now turn the call over to Rajesh Subramaniam for opening remarks.

Rajesh Subramaniam

Thank you everybody for joining in the call. Just a quick summary of our highlights of Q1, revenues came in at Rs. 6752 million demonstrating a quarter-on-quarter growth of 8.6% in INR terms and 1% in constant currency terms largely on account of growth from ramps up and new T&M client wins that we announced last year. In Q3 last year we announced TCVs of about \$160 million that we had signed up which are playing themselves out this year and will continue going forward. Some of these growth elements have been partially offset by seasonality fall-offs in our BFSI collections business, the Q4 is seasonally a strongest quarter given the taxation season in financial services collections business and also in a healthcare provider business. On a year-on-year basis our growth was 29.1% in Rupee terms and 12.8% in constant currency terms. Q1 FY13 operating profit margins came in at 5% basically maintained at the Q4 levels despite the seasonality fall-off both in the collections and the provider business and wage hikes for the India agents. The restructuring exercise that we undertook last year in realigning our service delivery organizations in realities of market requirements saw us drive significant cost rationalization related savings and that has demonstrated in our margin expansion partially offset by growth associated with ramping up new accounts in our customer management business. Year-on-year operating margin has expanded by 100 basis points and year-on-year our operating EBITDA increased by about 60%. On our cash position, we ended the quarter with Rs. 7,507 million as of June 30th at the closing exchange rate translates to 135 million as compared to 7,631 million at the previous quarter. The positive operating cash that we generated has been offset by repayment of our post shipment credit, Interest repayments on our debt while the interest that accrues on the cash balance; and not an inflow offsetting interest payments that we make. We had a significant cost of growth in our T&M client wins and another element of cash outflows saw us exercise of option of Twin Lakes 2 which basically is the operating centers for our collections businesses where we had the option to buy them and we did buy them as we intend to monetize and rebuilt our cash in Q2 going forward.

Employee strength is 32,553 employees on June 30th, 2012, 22,529 based in India and 10,024 based outside the country. Net addition of slightly under 2,500 employees in Q1 compared to a net reduction of 163 employees in Q1 FY12 and a reduction of 35 employees in Q4 FY12. There has been a spike in attrition across our estate. India and Philippines came in at 64% compared to 59.4% in Q4. Onshore US and Europe came in at about 39% compared to 34% in Q4. The domestic

business came in at 97 compared to 96% in Q4. From our total seat capacity perspective which is slightly under 25,000 seats worldwide, we added 704 seats during the quarter largely supporting the growth in our UK business, 48 delivery centers which is the same as on March 31st, 2012. We added one in UK and we reduced one center in India. Seat fill factor at 77% in June 30th, compared to 74% again basically we are sweating the seats better and we are operating our capacities which obviously aids in margin expansion. The average seat fill factor for Q1 FY13 was at 76%.

On the foreign exchange hedges side, total outstanding FX hedges at \$29 million, £41 million and AUD 12 million respectively for the next 12 months we have an overall 91% coverage with covered rates per \$ at 52 levels, Pound at 81 levels and the AUD at 50 levels for ensuing 12 to 24 months. 47% coverage with covered rates of the Dollar at 55 levels, Pound at 87 levels and the Australian Dollar at 55 levels. Now just a classification of how we derive our business from a geography, from a vertical and delivery location perspective. The US, North America contributes about 48%, the UK 33% and including India the rest of the world 19%. The UK geography has seen significant growth on the back of some of the deals that we are ramping up. The US has seen a slight deceleration on account of some of the underperformance we are seeing in our collections business. By vertical, the healthcare business came in at 33%. The telecom and media business came in at 42% and BFSI remained flat at about 25% and 1% constituting the business like publishing.

From a delivery perspective 68% of our business is derived onshore, 22% is derived offshore and 10% is domestic. Our top client contributes 14% of our revenues and our top five clients contributed 44% of our revenues. So largely some of these keys metrics are very stable and are very consistent with the preceding quarters. At this point in time, I will hand it over to Deep Babur to cover our financial performance.

Deep Babur

Moving on to Slide #9, we have the snapshot of our financial performance for this quarter with a comparison against the same quarter last year as well as the previous quarter which is Q4 FY12. As Rajesh already spoke us through, the revenue from operations has gone up from 622 crores in the last quarter to 675 crores this quarter which is 8.6% growth, comparing this to the previous year which is 523 crores, that is a 29.1% growth. At the EBITDA level we have grown from 43 crores in Q1 FY12 to 56 crores this last quarter which is a growth of about 30%

comparing the previous quarter it was 53 crores and the growth being about 5.5%. The operating EBITDA came in at 8.2%. The operating EBIT was maintained at the 5% level from the previous quarter, a growth from 31 to 33 crores, about 8% there and year-on-year for the same quarter last year it was 60% growth and in percentage terms about 100 basis point expansion. Profit before tax is 33.8 crores as compared to 25.2 crores the previous quarter. There have been a number of areas where there has actually been a fair bit of improvement particularly one of things that probably strikes out is the interest income line. We had an interest income this quarter of 2.7 crores as opposed to being pretty much flat last quarter and this is a result of the fact that when we actually rolled over some of our fixed deposits in the last week of March which were done at a much higher rate and those benefits have started to be seen in the numbers in this quarter. So the 33.8 crores which is at 5% over 25 crores of the previous quarter and over 15 crores the same quarter last year. Taxes are about 4.8 crores consistent with the same quarter last year. At the PAT level, the 29 crores we have generated this quarter is 4.3% of our revenue, which is an increase of about 6 crores from the previous quarter and over the same quarter last year it is a 10 crores moving to a 29 crores, which is 2% going to 4.3%. The basic EPS was 67 paise which is about 13 paise over the 54 paise we generated the last quarter. With this I will just request Rajesh to also take us through the business outlook.

Rajesh Subramaniam

From an outlook perspective, the growth momentum will continue in the various elements of our business. We are seeing significant growth in our customer management business across our geographies in US, UK, India and Philippines, continuing ramps in T&M and rising volumes from existing clients. Our healthcare business, the Payer business is doing exceedingly well, thanks to elements of health care reforms, we are seeing significant growth in both our claims processing and adjudication platforms across both US and India. On the provider side the growth pipeline is robust. Much better than what we did last year largely predicated on some very conscious efforts in bringing closures in a lot of deals which have seen in the pipeline waiting to be converted, so overall T&M has a very good momentum, healthcare good momentum, still seeing headwinds in our BFSI business largely predicated by our collections business in the US. We still have not seen an uptick in our inventory, the amount of charged off debt still seems to be showing a diminishing trend. There is pressure on liquidation rates and charge off rates. So in that business I will be very candid to say that it has underperformed and if that business had achieved some of its targeted

levels, our profitability levels would look much better but given we manage several portfolios of businesses, our ability to cross leverage, efficiencies has ensured that despite some of the setbacks that we have had we have managed to demonstrate a good quarter and going forward the outlook is positive. Margin expansion will be evident largely because we have held our SG&A line and depreciation to sweat a larger base of revenues. So very confident of what we have going into the future, plus we have higher rate on foreign exchange hedges as opposed to FY12 which will benefit us.

So overall moving into Q2, we expect strong revenue growth with margin improvement as I have stated in the past, Q3 of last year was the worst financial performance that this company has had. Q4 we saw the first signs of turnaround, Q1 has clearly demonstrated the turnaround with keeping the margin profile at the same level despite impact of seasonality and ramps in our various businesses and we expect this momentum to continue over the rest of the fiscal year.

Moderator

Ladies and gentlemen we will now begin the question and answer session. The first question is from Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran

It will be helpful if you can just run us through the broad timelines you are looking out for the FCCB refinancing and what are the broad thoughts there?

Rajesh Subramaniam

My finite timeline is the 4th of December I need to repay \$237 million. Last time when we communicated we mentioned that our gap in funding was 65 to 75 million and obviously a depreciating Rupee is not helping, the gap has increased somewhere between 80 to 85 million. But the good thing is I am still in conversations with my lenders, made significant progress including some, in principle commitments with some of the lenders in my syndicate that have stepped up to show commitment in backing the company. We still have a long way to go and the overall message is our preferred route is to make sure that we can get this syndicate in place to raise the additional funding to repay the FCCB. We are also looking at other measures which are in the company's control to generate an additional cash flow to try and reduce the gap of funding. So having said that we are looking and working with the syndicate members, but obviously a depreciating Rupee is moving the goal post but having said that we still are in advanced stages of conversations with our lenders moving across the line.

Srivathsan Ramachandran My second question is on the margins front we are possibly about 8.6-8.7% EBITDA margins. How do you see this shaping up? Do you think it will kind of go back to at least double digits on a run rate basis by end of this year?

Rajesh Subramaniam That is the expectation Srivathsan.

Srivathsan Ramachandran In terms of the margin portfolios, which are the businesses that are dragging down margin substantially and which other businesses are healthier on your margin profile?

Rajesh Subramaniam The collections business and my domestic business are margin laggards, the collections business if not for the significant fall off in the inventory and charge off levels, the margins would have been at an EBIT level of 6 to 8% but that business has underperformed significantly. The domestic business historically has been a low margin but a high-growth business so that is also a margin laggard, but we are working with customers to see how we can optimize based on how we sweat our fixed assets going forward. From a margin accretion perspective, the significant cost efficiencies and the de-layering in the organizations and the span improvements and the shrinkage improvements that we have driven across our customer management business, has seen very nice margin up takes in my offshore international work both in the contact center side and on the payer side. Onshore, my UK business despite some rate reductions but on the back of significant volume increase has ensured that the margins that have delivered took plan. Healthcare provider continues to be the most significant margin contributor given the deep rooted relationships we have with clients and so healthcare provider provides the best margins, the payer business comes in second, the customer management international business comes third, the UK onshore fourth and the laggards are the collections and the ABU business.

Moderator The next question is from the line of Dinesh Kumar from Aditya Birla Money. Please go ahead.

Dinesh Kumar First is about a top client ramp up. Just want to understand is there any one-time mile stone revenue kind of stuff. Is there anything else?

Rajesh Subramaniam There are no milestones, there are no one-time revenues in our Q1 numbers.

Dinesh Kumar Your top client as well as the top five clients, right?

Rajesh Subramaniam Yes that is right and actually on the flip side the seasonality fall off has actually reduced there but despite the fall off of revenues from seasonality which we see in Q4, we have demonstrated growth on the back of a growth in T&M clients across both US and India.

Dinesh Kumar The second query is just want to understand about this cash outflow because last quarter we had around 150 million, now this quarter we have around only 135 million?

Deep Babur Basically when you talk of 135 versus 150 million, it is the currency element that comes into play over there so that we give a clear picture of what has happened this quarter, we look to present the cash in Indian Rupee terms and from a pure operating standpoint the cash generation has actually been positive. What has happened between the last quarter and this quarter is that we had taken post shipment credit last time to really test it out and to see how it functions, it worked well and it is a tool we will clearly use in terms of when we get closer to our FCCBs redemption as a source of working capital for the company but that was something we actually repaid. Then we had an interest payment due and as Rajesh said earlier, while interest is in cash out flow, the interest that is accruing on our fixed deposits is actually not being seen in cash and you saw I spoke earlier about interest incoming positive at about 3 crores this quarter. We had some cost of growth which we spoke about in our T&M clients and especially when we get a new client on, by the time the billing comes and everything it takes a while at times, so which is why that amount is also sitting there and then the options that we exercised on Twin Lake which was to the tune of about \$1.8 million. If you take these four things out, then on an operating level the cash has actually been generated.

Dinesh Kumar So you are predominantly saying that is it because of Rupee and not because of operating kind of stuff you are saying?

Deep Babur The operating cash has been fairly robust and for instance, in the interest payments there will be a catch up, the post shipment credit is something that I can avail at any time, so those are things that I can get back. The cost of growth will come back in Q2 and the Twin Lake option again is it something like Rajesh mentioned earlier, that is again a piece we can look at from a sale and lease back point of view to generate the cash back in.

Dinesh Kumar What is the operating cash flow for this quarter as well as on the last quarter, if possible to give that?

Deep Babur The operating cash flow this quarter was about 69 crores.

Dinesh Kumar What about last quarter?

Deep Babur Last quarter, I do not have the number off the top my head right now but maybe while we are on this call I will give that.

Dinesh Kumar The last part is just going through your Annual Report, you are saying that next level of growth will come from a non-traditional BPO segment just like engineering design, R&D and the transformational approach towards outsourcing. What actually we are doing towards moving Firstsource towards that level?

Rajesh Subramaniam I think A) we will not add new vertical lines that is for sure but what is happening is in elements of our business, for example, in healthcare provider, thanks to healthcare reforms there are several opportunities that are emerging both on the payment side on the exchange side which we intend to start making investments given the national scale platform that we have and also on the T&M side we are a full service provider for our clients and given the increasing deals that we see which are more clients telling us to take their captive centers and drive transformational outsourcing strategies that we have built over time, so we truly are moving away from what I would call simple order taking to more transformational full suite customer life cycle management which then demonstrates the fact that the impact I am making on the client is just not in reducing cost but helping them drive higher revenues especially in telecoms and media where improving ARPUs and reducing churn are the two big factors which are forcing clients to look at strategies and look at vendors that can help them get this. So a short answer to your question is, we are not going to be entering into any new vertical or taking any new bets which are not peripheral or analogist to our current business.

Dinesh Kumar Just give us a little bit view about what is the order deal size we are getting and pipeline kind of stuff because for BPO the order size is coming down drastically so just want to understand how much million Dollar size deals we're getting?

Rajesh Subramaniam We have different rhythms for different businesses, for example, in my provider business my customer wins could be anywhere from 750,000 to up to a \$3 million. In my customer management business, the

businesses that I am winning are anywhere from \$ 5 million to \$ 25 million depending upon what kind of a deal that I am signing up with a client. In my collections business it is predicated on the inventory liquidation rate and the charge off which is where we are seeing some stress. So there is not any single rhythm to say that deal sizes are falling or deal sizes are increasing. All that I can tell you is that our pipeline across our payer, provider and our telecoms and media business is robust and we are confident of achieving revenue growth which would pretty much be at the higher end of what the NASSCOM predictions are.

Dinesh Kumar

One last question, regarding our domestic business outlook?

Rajesh Subramaniam

Domestic business outlook - growth is robust but to be very honest and candid, the challenge is driving a level of profitability and managing a level of working capital which is where we struggle with. So obviously we are looking at leverages within the organization to try and restore a certain level of profitability but those will never be anywhere close to the return on capital employed I make in my other businesses but the growth rates are attractive and most of our customers in this business are telcos and we all know what is happening to that market segment. So we are supporting our customers and hopefully at some point of time there will be a tipping point at which margins will start improving, combination of both productivity and price increases. It is a difficult market segment we operate in but it gives us growth and our deep business domain.

Dinesh Kumar

Let me put it this way, compared to the last two quarters are we seeing pricing pressure from our telcos because in Q2 of last quarter, that is last year, we were seeing a significant ramp up happening in Indian business. After that did we face any pricing pressure?

Rajesh Subramaniam

The segment of my business in telcos differs from customer to customer. I have actually got a price increase from one of my existing telco customers linked to contractual price indexation. The other level of growth that I have for my telco is for working for postpaid Platinum customers where my price points are completely different to the large estate of generic work for a different segment of population. To be very honest the behavior of telcos is, they demand a price reduction but I think we have kind of held the line in terms of demonstrating value and actually getting price increases from one of our clients and managing the business. It is a tough business to manage and the biggest element in our domestic business is the fact that we play in many states and different states have different minimum wage requirements, so some of

the leverages that we get sometimes get eroded because of these requirements and yes, the indexation to what we call the COLA, the Cost of Living index with our clients and clients also realize given the depth of work that we do and some of our clients are \$ 20 million plus clients, we are working in partnership but we also empathize with the environment in which they are operating in and we are working together as a group at this point of time.

Moderator

The next question is from the line of Ankit Bafna from Credit Suisse. Please go ahead.

Ankit Bafna

Just two questions, one is how are you looking at this RBI buy back window for buying back FCCBs, do you have any plans to do that and do you have the approvals? Second is if you can share as you said earlier that you received some in principle commitments from banks, how much exactly have you received, if you can share that?

Deep Babur

To answer your questions as far as the FCCB buybacks is concerned, yes, I think the RBI has come out with a circular where under the approval route at a minimum discount of 5% one can make an application to the RBI and they could approve it and you could go ahead and do a buyback. I think there we have a number of options that we are looking at, as Rajesh already spoke of in terms of us bridging our entire funding gap which is in the region of 80-85 billion based on the Rupee where it is today about 55.50 or thereabouts and buyback and any savings that may result is clearly one of the options that is there on the table and it is being evaluated and we will action it when we consider it appropriate. And also essentially we have got to look at it as part of the overall solution. So I cannot really just pick and choose certain elements and then start working on it. I have got to look at it as an entire solution and if the buyback fits into that solution then it is something that we will action. On your second question at this stage the commitments that Rajesh spoke about the in principle, now that our results have largely come in in-line with expectations, we expect that path to be accelerated in terms of the in-principle which will get moved to the next stage. This stage I am sure you will appreciate that we will be restricted from actually sharing any amount or any further details that we receive, but the basic message that we really wanted to give is that we are on the way and I think we have made significant progress on it and with the results also being positive, these in-principle should now translate into full approvals.

Moderator

The next question is from Jeff Chan from BNP Paribas. Please go ahead.

Jeff Chan

I also want to ask more about FCCB refinance, can you be more specific on the progress because you mentioned there is a significant progress we actually hear that from the last quarter you are looking at a more concrete idea at the end of July or August or we are now at July end and August and now we really hope to have more color on that. And also what if this Plan A does not work out, what is your Plan B and if there is not much Plan B available what is the Plan C which is the restructuring, is that on your agenda as well? Also I want to ask secondly that FX hedges, you have the cash on your book US\$135 million. What amount of this US\$135 million is available for the FCCB repayment which is not a hold for margin or a preparation for any foreign hedges?

Deep Babur

Let me answer the last question, so all of the money is available for redemption, there is no money being held back due to MTM, FX, hedges or anything of that nature. So cash is available for redemption. Now when we speak of a significant progress, I think what the message we are really trying to give over here is that we have moved in swiftly, see, we have been working with banks for few months, I am sure you will understand that the progress with banks is a function of projection we have showed them, and then us really living up to those projections and one of the challenges that we have really faced along this process is that when we started the process, the Rupee was in the 50-51 range with our gap being at 65-70 range, with the Rupee having depreciated by about 10% from that point which is about Rs. 5, our bar has actually gone up to 80 to 85. So as Rajesh said, the goal post has moved a little bit, so we have had to re-work on the numbers and accordingly their structure has slightly changed. The amount has gone up a little bit from the 65-70 to the 80-85. That is taking a little bit longer. Also I am sure you will appreciate that in this type of environment banks still want to understand our numbers a lot better and more importantly they wanted to see our numbers. Now that they have seen Q1, from this point onwards we feel a lot more confident of it progressing a bit faster.

Jeff Chan

What about a Plan B?

Deep Babur

Like I said earlier, I think there are a number of things to be very honest that we are looking at and I am sure you will appreciate that I am not in a liberty to share some of those with you. But yes, as a company I have got a Plan A which is to work with this, but yes, there are contingency plans, they are in place but please respect that I am not really at liberty to share those with you at this stage.

Jeff Chan What is the promoters' stance in supporting the company to repay the FCCB? And under what condition would you consider a restructuring, instead of repaying the FCCB?

Deep Babur I think it is a bit premature to get to that point. I think maybe we speak about the promoter. I think as far as the promoter which is ICICI Bank in that capacity as a shareholder is concerned, I think it is a well-known fact that they are in a position where they need to reduce their holding because of the US banking license that they possess and the requirement of the US Fed that they should be under a 5% holding in a non-banking company like ourselves, so from that standpoint unfortunately their hands are a bit tied in terms of helping us in their capacity as a promoter.

Jeff Chan I see that the unbilled receivable is up Rs. 300 million during the quarter, what is that?

Deep Babur I think the receivables going up is honestly a couple of things that have happened, one, obviously there is a currency factor probably 90% of my receivables is actually non-Indian Rupees and a quarter-on-quarter the Rupee has depreciated about 10% against pretty much all other currencies in which we have receivables, that is the US Dollar, the Australian Dollar, the Sterling and Euro, etc. So one, that is a key factor that has driven the receivables up and the other we know I earlier did speak about the fact that we have had significant ramp ups that have taken place and so effectively we are doing a funding the cost of growth that happens that should translate into cash in the ensuing months.

Jeff Chan For this loan that you are looking for, will it come from the same banks that you borrowed previously?

Deep Babur Largely, yes.

Jeff Chan You previously mentioned they wanted to see your financial this quarter and now you have got it. What did they tell you the expectation of the financials of this quarter?

Rajesh Subramaniam I think the question is, there is a certain plan that the company puts together as we discuss with the lenders on the ability for the company to raise its debt. Given what has happened over the last 2 to 3 quarters this is the first quarter where we have demonstrated the commitments we made, we have demonstrated our performance. So that point Deep was making.

Jeff Chan One last question, what would be the interest rate level potentially?

Deep Babur The interest rate levels, again I should not be speaking on behalf of the banks here, like I said we have made progress but we have been focusing more on the credit side at this stage and really will have to work out the interest rate levels but again I think one important data point probably would be the fact that I am looking for an external commercial borrowing and an external commercial borrowing does have a RBI mandated cap of LIBOR plus 500. So maybe that is something you can go with but I do not want to second guess in terms of what the banks are going to charge me, it could be lower than this also.

Moderator The next question is from Prashant Sawant from KNG Securities. Please go ahead.

Prashant Sawant Just wanted to get more on the FCCB. I think you have been telling us so much on this issue. I know you have been reluctant talking about your Plan B or Plan C but is restructuring an idea you are exploring at this point of time?

Rajesh Subramaniam I think Prashant, as we said we are evaluating all strategies at this point in time. None of the strategies are linear or in isolation. The company has to evaluate every option on the table and progress every option and then come to a conclusion once we know what the gating date is in terms of implementing in the options. So as I said, a Plan A, Plan B, Plan C, none of them are linear, all options on the table are being evaluated by the company in conjunction with its Board and its shareholders simultaneously.

Prashant Sawant Now if this ECB is approved then your debt will go up, at the same time is the promoter looking to increase the equity stake into company?

Deep Babur Prashant, I will repeat myself again, I mentioned earlier as well that promoter ICICI Bank unfortunately have their hands tied. So they do not really have a choice unfortunately because for them they need to bring their holding to under 5% which is a requirement of the US Fed in terms of ICICI Bank's US banking license. They have their hands tied unfortunately.

Prashant Sawant So there will be sale from the promoters on the equity side?

Rajesh Subramaniam That is something we cannot comment on, it is a question you should ask the shareholders of the company.

Prashant Sawant In the last con-call you mentioned you had about 155 million of assets, land and building and now how much these assets would be securitized to get ECB or has it already been securitized?

Deep Babur I am not sure we would have said that on the previous call because we do not possess \$155 million of land and building.

Prashant Sawant How much do you purchase, could you give an idea?

Deep Babur My net fixed asset base is in the region of about \$20 million. We are not a capital intensive industry from a real asset point of view.

Prashant Sawant So this ECB if it is approved and you already have the 180 million which you raised last year. How much is your debt interest cost envisaged going forward it is going to be, let us say, next year onwards?

Deep Babur I mentioned earlier the cap would probably be Libor plus 500, so you could take an high-level shot at this, maybe I will have there about \$250 million, maybe a 6% whatever that math works out, \$15 million in this example.

Moderator The next question is from Gaurav Jain from ICICI Bank. Please go ahead.

Gaurav Jain I had attended the call last time also and what transpired was that you were not hedging your FCCB liabilities and the reason that was given last time was that the hedging cost was Rs 2 or Rs. 3. Now I just want to understand whether there is any hedging plan that the management has or the management will continue to be exposed to the foreign exchange fluctuations?

Deep Babur Gaurav, we are looking at hedging and we have been constantly looking at the hedging sides, so there are certain targets that we have and I think obviously now with just about four months to go we will start to hedge those liabilities.

Gaurav Jain Also in this con-call it was revealed that 90% of your revenues are from non-India clients or maybe non-INR currency.

Deep Babur That is right.

Gaurav Jain So in Dollar terms what has been the increase as far as revenues are concerned? I just want to discount the forex?

Deep Babur If you would have seen when Rajesh took us through the presentation on the first slide, we always give the split between what is the growth in Rupee terms and constant currency terms. In constant currency our growth is 1%.

Gaurav Jain You have already raised some borrowings from banks in order to redeem your FCCBs. Now I believe that was converted into Rupees and the net breakeven is around Rs. 48. They are kept as deposits and those deposits are encumbered with banks or they are not encumbered?

Deep Babur They are encumbered with banks.

Gaurav Jain Could you face any difficulty when you want to repay those FCCBs or they are iron clad agreements that they have to break these FDs at this given point of time and they cannot say no, the banks?

Deep Babur The position is that this money is to be used only for the purpose of FCCB redemption. That is the only rule of those funds.

Moderator The next question is from Darshan Engineer from Alchemy Capital. Please go ahead.

Darshan Engineer Just wanted to know there is an increase in the goodwill which is currently there, it is almost up by 200 crores, so we wanted to know what was the reason for the same? Secondly also there has been also an increase in the debt level, if you had to consider FCCB as a part of debt? So how much of it is due to Rupee depreciation and how much of it is due to operating reasons?

Deep Babur All of it that you speak about is due to Rupee depreciation. Bulk of the goodwill is sitting in US Dollars in US books which is my US subsidiary for which even I am translating, the rate was 50.875 on 31 March, on 30 June it was 55.615. So it is that Rs. 4.74 that is an impact on goodwill as well as on debt because my debt is \$180 million in US Dollars as well as the FCCB.

Darshan Engineer Also if I look at your factsheet, in the factsheet there are cash and cash equivalents, they are shown to the 684 crores whereas on the third page in the cash equivalents, the closing cash and cash equivalents is 750 crores, so just wanted to understand is it some reclassification on the balance sheet side?

Deep Babur No re-classification there, if you look at the same tab where you see cash and cash equivalents of 684.5, just two lines above it there is current investments of 64.2 and a little above that under non-current assets the third line item speaks of 1.8 crores in non-current investments, so it is a total of these three line items.

Darshan Engineer So the closing cash and cash equivalents on the Page #3 is actually these 3 together?

Deep Babur That is correct.

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

Amitabh Sonthalia This is in relation to some of the earlier questions. As I understand from your previous call as well as some of the answers from this call, you have a window available now I understand that the RBI has allowed companies to buy back their FCCBs up to a 5% discount to be an accreted value whereas earlier it was discount of face value, which means if I am not mistaken as per Bloomberg your FCCBs are quoting at far higher discount than 5% to its estimated accreted value. I understand you are trying to tie-up the balance amount of funds and most of the investor concerns are focused on your FCCB repayment. So why don't you just send out a strong message by buying back whatever you can based on the cash that you have available with you?

Deep Babur The buyback would not just be done for the purpose of sending out a strong message to be honest.

Amitabh Sonthalia Even otherwise you have the intention to repay those balances, right?

Deep Babur Absolutely.

Amitabh Sonthalia You have 75% of the cash available and rather than sitting and doing nothing about it and just crying about the currency moving against you, in the first place management made a huge blunder by bringing that money back into India to earn the positive carry and taking the currency risk when you knew you had a liability in US Dollar. So the prudent thing would have been not worry about hedging and all that and keep the balances in Dollars or buyback whatever the case may be to reduce the liability. But it is kind of shooting yourself in the foot by having brought the money back in the country six months back or whenever, three months or a year, I do not know when. So you have consciously taken on the

currency risk whereas you did not need to do that, number one. Number two, you still have the opportunity to not take further risk and buy it to the extent you can. So while all your answers are appreciated I still do not get the point, I am still not able to get the satisfactory answer to these two questions.

Deep Babur

Yes, there is an opportunity that is there and we accept all the theories and everything else you have really said out here. I think the only thing we are not saying that we are not going to do a buyback. We are not saying that at all. I think at this point in time there are a multitude of solutions that we are looking at. It will be difficult for me to share. And I am going to look at it in a more wholesome manner. Now I cannot at this stage and I do not want to do let us say, \$5 million or \$10 million or even for that matter \$20 million buyback. It does not really take me anywhere. The \$20 million buyback will save me that \$3 million. I have got to look at something that basically takes care of the entire thing and it fits into the entire puzzle in terms of us resolving this and bridging the entire gap. So unlike what we did for instance last year, where it was a little bit more tactical in nature but we were about 15 months away from the redemption at that point in time when I bought back about \$42.6 million. At this stage it has got to be looked at in a more strategic manner. So I am sure you will appreciate that it is not a case that there is a discount level outside let me simply just go capture it. It is not unfortunately for us as tactical and as simple as that.

Amitabh Sonthalia

Alright, I guess I will have to accept that even though I am not quite in agreement.

Moderator

The next question is from Yang Liu from Daiwa. Please go ahead.

Yang Liu

My question has been answered earlier. I want to congratulate management on good set of numbers this quarter.

Rajesh Subramaniam

Thanks

Moderator

The next question is from Barun Agarwal from Factorial Management. Please go ahead.

Barun Agarwal

Sorry to push the previous point but I kind of agree with that gentleman, what option do you close by using whatever cash you have to buy whatever you can? Do you reduce your options in any manner?

- Deep Babur** Barun, yes and no and I think it is not about reducing options. But I think at the expense of repeating myself, the point over here really is that it's for me a tactical solution today with four months to go is not what I am looking for. I am not looking to go and buy a small amount and then try and get a small saving, that is not where it is. We have got to look at the bigger picture. I think that is the basic difference.
- Rajesh Subramaniam** Let me chip in here. There was a question asked, what was our Plan B and if you do not have a Plan B what was our Plan C. I mentioned to you that we have multiple strategies that we are evaluating simultaneously not knowing where the confluence will happen. So if our preferred plan does not fructify for some reason, I want to make sure that some tactical moves that I take today, it does not jeopardize my ability to walk through or how I manage my liability in the future. So that is just to give you some contours of exactly how we are looking at an overall solution not doing something tactical because of a certain softness of the bond right now which could potentially jeopardize our ability to maneuver in the future. So that is the level of granularity I can give you at this point in time without divulging more.
- Barun Agarwal** Let us say the bond was not even soft, you were getting it at a fair price, let us say that 3% discounts to accrued and theoretically you could go and buy it, I do not understand why would you not buy? Rather than having one liability on one side and cash from the other side why not just keep reducing this gap?
- Deep Babur** I wish it was as simple as that, I think you have to first appreciate that, again we keep repeating that we are looking at this as a one full solution which is also the thing that it is fair and equitable to everyone, that is one thing which is very critical for us over here. We do not want to be getting into a situation where we do something tactical, again I have to repeat Rajesh's words, and then for whatever reason jeopardize some of my Plans B, C and D if at all I need to go down that path.
- Barun Agarwal** Probably you have more things going on so I just respect what you are telling us.
- Moderator** Ladies and gentlemen we will take one last question from David Kungsen from Pine River. Please go ahead.
- David Kungsen** I have two questions, the first one is you mentioned that the Rupee depreciation is moving the goal post for you guys to raise money but if

you are raising an ECB then these are in Dollar terms anyway, would it matter or the ECB is really requiring collateral so is this impacting your collateral or business valuation?

Deep Babur

David you are right from where you are coming. I think where the goal post is moving is that my current cash which is shown in Indian Rupees at about 751 in crores, unfortunately for me from a Rupee depreciation point of view, the bulk of it is held in Indian Rupees which I have to convert into US Dollars. So what has happened is if I were converting that at 50 as opposed to converting that at 55 is a \$15 million impact, which is the impact we are talking about.

David Kungsen

If this money for FCCB repayment, why is it you have it in Rupee? You do not have an overseas account?

Deep Babur

No, it's not that we do not have an overseas account even if we do not have an overseas account we have the option of hedging it. As I said earlier, I think the fact is that we have not hedged this liability, we have left it open and right now as we get closer we will look to hedge it and to close it but for whatever reason the fact is that we took a loan last year which we brought into India in Indian Rupees with the idea of wanting a positive carry and really taking a currency risk on, it was a conscious call which has admittedly not quite played itself out.

David Kungsen

The second question is if you need to restructure the bonds, when do you think is the latest time you need to start to communicate to bondholders together?

Deep Babur

We at this stage really think this is somewhat premature for us to start thinking. Sometimes we start thinking on those lines, we start thinking we have got an option, we really in many ways are looking ourselves at completely going down the debt path.

David Kungsen

If you leave it too late?

Rajesh Subramanian

We will not leave it too late David. As Plan B and C and whatever are the plans we will ensure we communicate with the bondholders if that is the path that we need to follow assuming that our main plan falls through. So we have got all those worked out.

Moderator

Ladies and gentlemen that was the last question. I now had the conference over to Mr. Rajesh Subramanian for closing comments.

Rajesh Subramanian

Thank everybody for joining the call. As I said we have done well in this quarter. We could have done better if not for some underperformance in some of our business units which were managed well by some of the other units which did well. But I am extremely optimistic about our margin expansion and our growth growing into the future and as a company we are clearly aligned on our objectives of meeting some of the debt repayment obligations the company is facing with and be rest assured we are leaving no stone unturned to try and explore strategies to meet those objectives. So again thank you very much and we look forward to your continuing support.

Yash Gadodia

Thanks Rajesh and thank you once again everyone for joining in the call. If any of your questions have been unanswered you could write in to us at investor relations, Ankit or me. Thank you and have a good day.

Moderator

Thank you very much. On behalf of Firstsource Solutions Limited that concludes this conference call.