Q1 FY2015 Earnings Call Transcript – August 01, 2014

CORPORATE PARTICIPANTS:

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

Quarter Four Earnings Conference Call, Q1FY15
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Moderator: Ladies and Gentlemen, Good Day and welcome to the Firstsource Solutions Limited Q1FY15 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 after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and 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. Thank you and over to you.

Ganesh Iyer: Welcome everyone and thank you for joining us for Q1FY15 ended June 30, 2014 Earnings Call for Firstsource. Please note that the results, the fact sheet, and the presentation have been mailed over to you and you can also find this on our website www.firstsource.com. To take us through the results and 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 anything 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 the 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 the subsequent annual reports that you can find on our website. With that said, I would now turn over the call to Mr. Rajesh Subramaniam – our Managing Director and CEO.

Rajesh Subramaniam: Hello, everybody, and thanks for your time today in joining our Earnings Call. I will take you through our Performance Highlights and open it up for Q&As. For Q1FY15 our operating revenues came in at Rs.755.6 crores compared to Rs.719.1 crores in Q1FY14 and as compared to Rs.796.2 crores in Q4FY14. The year-on-year growth is 5.1% in rupee terms and de-growth of 4.5% in constant currency terms. If I normalize the de-growth for collection seasonality fall off and for some of the terminations good and some terminations which I spoke about last quarter, when we had a banking client that internalize the operations in Colorado Springs in the US to its own centers in Vegas, the actual de-growth is 2.4% in constant currency terms. Quarter-on-Quarter the de-growth has been 5.1% in rupee terms and 3.5% in constant currency terms, and if I normalize the same seasonality impact and the effect of some of the terminations I spoke about, this would have been around 2% in constant currency terms. Operating EBIT in Q1 came in at Rs.75.5 crores compared to Rs.62.4 crores in Q1 last year and Rs.80.8 crores in Q4FY14, year-on-year growth is 21%, margin expansion of 130 basis points from 8.7% to 10%, Q-o-Q de-growth of 6.6% and margin reduction by 16 basis points from 10.16% to 10%. The collection seasonality impact is about 30 basis points Q-o-Q. So there actually would have been a margin expansion despite collection seasonality fall off and of course taking the impact of wage hikes for the agent level population that we have across the world. Profit after tax in Q1 came in at Rs.53.2 crores compared to Rs.41 crores in Q1 last year, Rs.58.8 crores in Q4 of last year, year-on-year growth just under 30%, the margin expansion of 130 basis points which is basically at the level of EBIT which flows from 5.7% to 7%, Q-o-Q de-growth of 9.5% and margin reduction of 35 basis points from 7.35% to 7%, which remains almost at the same level adjusted for collection seasons. Cash and debt position, cash and cash equivalents of Rs.210 crores as of June 30, 2014 compared to Rs.188.9 crores in the previous quarter. We successfully repaid 11.25 million of our foreign currency loan and 0.5 million of our ECB on June 30. CAPEX spend in Q1 was just under Rs.6 crores. Our net long-term debt as of June 30 is $114 million. We do have working cap pre-debt which is more than adequately backed by the level of solvency we have from our net current assets excluding cash. Outstanding FX hedges at US$39 million, £60 million and A$1 million, for the next 12 months 88% we have covered on the dollar at 65.3 levels and almost 90% on the pound at 102.7, 54% coverage for the Australian dollar at just under 61. Between the pound and the Philippine Peso, we have operations in Manila and Cebu; we have covered 25% at 73.2. For the next 12 to 24 months running into FY16, 46% of the dollar at 68.1 and 66% of pound at 112.8. Employee strength and asset-related details 27,147 employees as on June 30, 2014; seat capacity 23,711; 46 delivery centers same as Q4 of last year; 17,853 employees in India and 9,294 employees based outside of India; we had a reduction of 519 employees. Apart from collection seasonality we also have some seasonality in some of the Telco budgets in India, and obviously there is some right sizing which comes back once the business comes back up. Seat-fill factor has fallen to 73.4% compared to 77%, this is largely attributed to the fact that as I said the banking customer which moved out of Colorado Springs, those seats which are in the process of going live again in October based on the wins we had, and obviously we have had the effect of some of the terminations from some of the big UK Telco's in Manila, which have not been reutilized. So, these numbers will correct in Q2, the seat-fill factor will go up on the existing estate. Q2 however will have the capitalization of a new center which is going live with one of the largest Telco's in the US. So on the balance, I believe the seat-fill factor will improve in Q2, which will aid in absorbing some elements of unallocated costs that we have.

Attrition – there has been an increase in attrition, onshore largely the buoyancy in the UK especially in some of our centers, in places like Cardiff, there is a spike, it is not affecting performance, we have managed it well, and we are able to get the supply chain going to fill it. We have done remediation measures in ensuring that these levels at least on the onshore markets do not continue. The domestic business spiked from 86% to 102.5%. At about 85% to 88% it does not impair my margins but in Q1 because of the spike in attrition our domestic business has suffered from a margin contribution perspective which again, we have already seen the correction happen in Q2 and is expected to yield results, so again I am not too worried about this, not a good place to be in, but it has corrected.

From a “Financial Performance” perspective if I move you to Slide #8, revenue by geography in Q1, we saw India and the rest of the world 17%, we saw UK at 36% and US at 47%. From revenue by verticals we have seen the slow uptick in Healthcare which has gone up from 34% to 35%. I will talk about it when I talk about the outlook. Telecoms and Media, again some of our existing customers are scaling well; 43% to 44%, and Financial Services, between the banking client and the collection seasonality fall off has reduced from 22% to 21%. From a delivery location perspective, offshore has grown to 26% from 23%, domestic has reduced from 9% to 8% and onshore has come down from 68% to 66%. Again, it is the same impacts of seasonality in the banking customer and customer management.

Client concentration – our largest client continues to do well, so it has moved from 23% to 24% and top 5 are at 46%. Given the US Telco that we have won, these numbers will change by Q3-Q4 as that customer scales up. I am sure it will come out in the Q&A but I will talk about it when I talk about the outlook.

Financial Performance from representation of the numbers in tabular format, and what you see on Slide #9, everything I spoke about, I will just call out the fact that EBITDA has improved from 11.2% to 12.3%, on a year-on-year basis, and profit after tax at 7%, and basically this sets us up well for delivering the 150-200 basis points guidance I had given on a full year basis like-to-like between FY14 & FY15.

From an “Outlook” perspective as had I mentioned in the last call, decision cycles which were getting delayed some of them have started, the pipeline is obviously unclogging, we have had a very good quarter of sales momentum, we have signed up $36 million of annual contract value in this quarter, which is getting implemented and will play out over the next two quarters, including Q2 and the momentum we are seeing is pretty significant. Our pipeline has increased smartly; we are just about under $400 million in the qualified pipeline looking into the future, and the only callout I will have is the fact that implementation cycles are getting delayed. It is just a way in our business especially given the fact that one customer who we announced 15 million ACV in Q3, 45 million TCV is scaling rapidly but there are some implementation delays which are happening, but it is a way of life in our business. Similarly, the banking client which was supposed to grow in Cebu, hopefully by end of this month we get complete clarity on how they will play out over the next six months, but expected to be whole albeit delayed by about 6 months. The new productized services are doing well. In the Customer Management business you are aware obviously the arrowheads are penetrated within our customers and are gaining traction and are gaining momentum in terms of the conversation and how we improve our wallet share going forward. Three products are out of the lab especially in the Provider business, and as we speak, conversations are with customers to start proof-of-concepts, very excited about how it will play out, again I cannot give a specific timeline as to when this convert to revenues, but all I can say is - everything that we said we believed will happen given some of the disruptions, we definitely see those opportunities, and we are geared with the product pipeline to go and access that market. I spoke about it, margin expansion 120 to 200 basis points is real, and the repayment of debt, we expect our debt-EBITDA to be at levels of one and slightly below by March 2015.

With that I will conclude my summary and I will open up the floor for questions. Thank you.

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

Srivatsan Ramachandran: Just wanted your comments on a couple of specific points – one is, you said your pipeline is building up smartly. When you talk of a pipeline of close to $400 million just wanted to know how do you quantify – will it be predominantly new business or this $400 million would also include a business which we are currently doing or may be coming up for renewal?

Rajesh Subramaniam: This does not include renewals; this includes business we see from existing customers coming out in the future and new logos.

Srivatsan Ramachandran: The other bit I just wanted to get your commentary, if we have to see how the pipeline is building up and given that ours is a long gestation sales cycle businesses, how would you look at FY15/FY16 from a momentum point of view. I am not asking for anything explicit, but just qualitatively we would have to say 6 months back from now, how are things shaping, mainly on the revenue line?

Rajesh Subramaniam: Excellent, Srivathsan, based on the deals that we have signed and the deals I know I will sign in the next couple of months when we have our Q2 call, at that point in time I would have demonstrated book business that will give me a growth rate of 7.5% to 8% for FY16 at the end of Q2, which sets me up extremely well for FY16, because all the pain we are seeing in our implementation we know will get done and one of the clients which have not been in my top 10 clients in the last couple of years will be actually my second largest client when we exit Q4FY15.

Srivatsan Ramachandran: Coming to margins, in general Q1 tends to set the base for the year; I believe it will continue to FY15 also?

Rajesh Subramaniam: Q2 will be a very good quarter from a margin perspective, where we are today, we definitely see a nice step up both sequentially and obviously year-on-year in our Q2 performance. But the only caution I will have is some of that margin expansion has also happened because of delays in implementation where cost of growth is getting deferred, but still it is going to be a nice step up, because it is not going to be for the full quarter, but Q3 onwards when the cost of growth comes in full swing, I have absolute cushion and comfort on the fact that some of my hedging book also steps up in Q3 compared to where I am in Q1 and Q2 given our policy of our forward 12-month rolling basis. So my margin expansion at 150 basis points is absolute minimum I am committing to and I will deliver, and 200 basis points I will get with improved revenue contributions that I get to see in Q4 after absorbing the cost of growth in Q3.

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

Sudhakar: Hi, this is Sudhakar here. Just had a couple of questions; one on this new deal which you have won, which is worth around $36 million, is this a totally new deal or renewal of existing old contract?

Rajesh Subramaniam: None of this is renewal of old contracts; these are all new deals from existing customers or new customers.

Sudhakar: It is mentioned in your press release that the revenue would start coming from Q3 onwards. Would this deal involve any upfront investment and all?

Rajesh Subramaniam: At this point in time on the deals that we have won, the upfront investments are in capitalization of CAPEX, some of which has already been incurred in Q1, there are no other significant investments that we see on CAPEX basis, there will be what I said the elements of cost of growth where obviously we have to hire trained people before they get to their level of productivity, and obviously there will be a working capital spike given that the scale of operations is significantly stepping up.

Sudhakar: Rajesh what kind of overall growth do you see this year, FY15?

Rajesh Subramaniam: This year as I had guided to, I am holding on to the 5% to 6% growth rate because I see a clear upward momentum in Q3-Q4. And I am telling you right now Q2 will grow sequentially, but it will not grow to the extent of some of the estimates I have seen, but my profit growth will be significant, but all I can say is that the $36 million we have signed in this quarter and the 45 million TCV which is 15 million ACV we signed in prior quarters will start playing out in Q3 and will be full blown in Q4, which will demonstrate the fact that I am pretty well set for achieving some of the highest growth rates we have seen over the last three years in FY16.

Sudhakar: And this 1.5% or 2% margin expansion; this is on the closing of Q4FY14 right?

Rajesh Subramaniam: No, this is FY15; it is a full year guidance I am giving you, not the Q4 run rate.

Sudhakar: Slightly from a medium to longer perspective you are already around 500 to 550 million Revenue Company, where do you see the company 3 to 5 years down the line in terms of aspirations, do you target 1 billion dollar revenue or something?

Rajesh Subramaniam: I think for me excluding any inorganic initiatives, the compounded growth rate of 10% to 12% is definitely par for the course given the opportunities we see in healthcare and customer management. For me normally, I would rather figure out what is my improvement in wallet share and penetration in customers rather than keeping an end objective of saying I want to get to a billion dollars in three years, because the billion dollar club, I think the relevance today is we see with customers more determined by capabilities than scale.

Sudhakar: Would you enter in any other verticals other than the chosen three ones?

Rajesh Subramaniam: At this point in time, no, I think any other new vertical would be driven if existing customers want us to get into any other business of theirs which they would like us to support, but consciously, we are not looking at anything beyond the three verticals we are in. Tactically in the utility segment we will leverage the consulting domain of our parent and look at dealing with some specific opportunities that might come in the utility segment in the UK, but again as I said I will not be investing in sales and marketing expenses to go after any new vertical at this point in time.

Sudhakar: What is the total debt including short term borrowing?

Rajesh Subramaniam: Our net debt excluding cash is $114 million, I will add another $30 million of working capital debt which is backed by receivables. The solvency of the short term debt is something I do not worry about.

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

Ankit Pande: I just want to understand Rajesh, especially our fortunes have improved so much over the year, what are the kind of deals that we are winning in the marketplace today, how are they different from last year, especially I would imagine that last year the bandwidth would be significantly occupied by managing costs more than growth, is it not very different and more related to the kind of traction or the bandwidth that we have more away from just cutting cost?

Rajesh Subramaniam: Excellent question, so let me take this in two parts – One is, with my existing customers the business for two to three years what was growing was not very different from what I have been doing with them for over the years. But, over the last couple of years we focused productization efforts we have brought about to drive better insights into the journey of our customer's customer that has helped us demonstrate value which not just ensures that we deal with our SLAs at present but we deal with how we ensure higher revenues generating potential for them and how do we reduce churn or accelerate their time to market. So given these conversations and the proof-of-concepts, I mean, these guys are not going to pay me because I have a product which can embed and give them insight, but over the last 12 months the value that it has generated in terms of embedding with their operations has helped me scale my existing business and help me in pricing models on some of the incremental work which is more predicated on outcome rather than input. So the quality of my relationships has upstream significantly which is setting me up well. So that is one. The other element is one of the wins that we have had is effectively cross selling customer management work into the healthcare payer. I have been talking about this for quite some time now, and we have had our first win among the top five payers, where we will be supporting them when the enrollment opens in October, and now I expect the floodgates open, because one of the top five have taken a leap of faith in existing customers, I expect the floodgates to open with my other customers, who have been sitting on the fence because they believe we did not have the expertise in Healthcare, in Customer Management. So that is something which we will play till going forward so that's different from what has been in the past. The other element which is helping us is with the customer, I said, which was not even in my top 10 two to three years back is the fact that we kind of became an out of sight, out of mind vendor for them over the years because just lack of oversight, so then we basically created, used our first smartomation product, we went back to them and gave them a plan to show them that how I could reduce their budget with us by 50%, I mean, somebody would think I would be crazy to go reduce my revenue walk with them by 50%, but I showed them the inefficiencies of their processes have been and what I could automate and then they agreed to a gain share. So while it helped my profitability, it did reduce my revenues, but six months later because of what we did for them they came back and asked us to use that in their captive centers and we did that well, we gave them a plan as to what they can do to drive efficiencies, and then six months thereafter they are now signing up with me to become pretty much my second largest customer over the next six months. So this approach to dealing with customers has been different from what has been in the past. I hope that answers your question.

Ankit Pande: That was very helpful. On the flipside I have some concerns on your portfolio maybe if you can address them. One is obviously on Obama Healthcare; there are a lot of negative announcements coming in the United States at this point in time. And also the US Collections, we have also voiced concerns in the past. So how do you view them as a longer term strategy wise?

Rajesh Subramaniam: First, let me take Collections, we obviously have seen an uptick in our Collections profitability and we clearly see that falling unemployment rates have now come to the point where now we see liquidation rates improving. So the Collections business has done well and I think given that the economic recovery in the US, there are many views whether it is sustainable for the next two to three years or not, I think the worst in our Collections business is behind us, and given the fact that we run gold standards in compliance, we pretty much are among the top vendors with 7 of the top 10 banks of credit card issuers in North America. So Collections I am less worried and I am a lot more confident this year, but if US economic recovery and unemployment rate stay where they are, I think we will have a much better this year than last year. On the negative announcements around Obamacare, enrollments will open between October and December, another 6 to 10 million Americans will come on, they will buy policies on the exchanges, they will be enrolled in the hospitals, we are seeing budget flushes in some of the states we operate in, and we are seeing an increase in Medic aid spending. At the macro level there are negative announcements and all kinds of legislations which people are trying to block and tackle, but fundamentally we believe that some of those reform mandates are here to stay and how it will play itself out, at least on the Payer side we have clear ideas. On the Provider side it is a fragmented market, the sales cycles will be longer because it will involve certain changes in the hospital network, the larger hospital networks obviously are moving faster, the smaller ones will follow. So my sense is what you will see in healthcare as a vertical for us, we will be in a much better place this year than last year and it is the tailwinds hour because of the Affordable Care Act.

Ankit Pande: You did highlight you had a 6-month delay in one of the banking clients. Were there any delays in this last quarter itself, which would made that your growth could have been not of 6%, if that would have been alright?

Rajesh Subramaniam: Absolutely, one of our clients which would have been a $25 million account for us in FY15 is now trending closer to $15 million to $16 million because in October last year some stakeholder changes ensured that the new team had to come in and go through their process, no change, they will honor the contract, there will be delays in it, and that has affected me. Essentially, in Philippines in Cebu, one of my clients were supposed to get to about 440 FDs for mortgage processing and mortgage telephony, that is right now at 100, it was supposed to be at 400 plus by June this year and that I expect at least 75% of the numbers to come good by Q4 between Jan and March based on what the current conversations on procurement of some of the technology and IPLC requirement that client have laid out. So, it is a way of life, but all I can say is based on what we have signed and what we know we are going through today, I have very good visibility when I exit Q4FY16.

Ankit Pande: Since we are very confident of debt repayments, have we thought of any extraneous uses of cash in FY16?

Rajesh Subramaniam: Are you talking about M&A or are you talking about dividends?

Ankit Pande: I can talk about both.

Rajesh Subramaniam: At this point in time, we are very focused on getting the 11.25 million and getting us Debt-EBITDA levels below one, we will look for capabilities that we will tuck in, and obviously, with the bunching up of our scale, working capital requirements also will increase. So at this point in time all I can say is that I am in a good place right now, I will not need support to repay my debt, and obviously FY16 as I have always said, I think I have ability to improve my margins beyond what we see in FY15.

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

Vimal Goel: First, a couple of bookkeeping questions, Sir, could you just give us the breakup of other income, what have been the FOREX loss in this particular quarter, and what is the treasury income?

Rajesh Subramaniam: Dinesh will give you the answer. I think the FOREX MTM loss was about Rs.6 crores but he will give you the exact number.

Dinesh Jain: The other income mainly includes the interest income. FOREX loss is actually Rs.2 crores, which is mainly coming on a consolidation process, that is the mainly the other income which is the negative Rs.1 crore you are talking, right.

Vimal Goel: Sir, what should be the model for the tax rates going into FY15?

Dinesh Jain: It will remain between 8% to 10%, this quarter is slightly between 6% to 6.5% where we have some of the benefits and other pieces, but I think annualized it will be between 8% to 10%.

Vimal Goel: And as far as the depreciation is concerned, what would be the run rate going forward?

Dinesh Jain: I think what the quarter you see, probably the run rate, there is slight increase in probably Q3 and Q4 onwards, because there will be some investment that we will do in ourselves. Otherwise, the policy remains, we probably will invest most of them through operating leases, and that goes through my gross margin.

Vimal Goel: What is the gross debt on your books right now?

Rajesh Subramaniam: On $114 million you add, we have roughly $30 or $32 million of cash, so it is about $145 million.

Moderator: Thank you, we have the next question from the line Ruchi Burde from Emkay Global. Please go ahead.

Ruchi Burde: We spoke about the ramp down of on the clients. Is that done with or do we expect some of that ramp down to continue in the second quarter as well?

Rajesh Subramaniam: It will continue into second quarter; it will end in September.

Ruchi Burde: Sir, in this particular quarter in your cash flow statement I could see investment in current assets. So with the new deals coming in will that trend continue of increasing current assets?

Rajesh Subramaniam: Excellent question, I think in Q1 our DSOs, we did have a slight deterioration largely because of one customer and that has been collected in July and one of our largest customers their yearend is June 30, so there was a slight delay, but all that has been done and the DSOs will improve significantly in Q2.

Ruchi Burde: Sir, we spoke about the good pipeline, we have good deals in hand. But, do you see with the delays in implementation and delays from client side can push our growth from FY15 to FY16?

Rajesh Subramaniam: Yes, that is what we spoke about saying that while I am holding on to my 5% to 6%, the key for me is to secure the deals in the pipeline, once I secure the deal, then I know the implementation, even if it gets delayed, it does not impair my business, and as I said, I have never felt better about my pipeline and the deal wins compared to what has happened in the past, and delays are temporary but the impact, the results going forward given the long-term nature of the contract sets me up well. So there will be some shifts in terms of how the revenue comes in, but overall the momentum is positive.

Moderator: Thank you. The next question is from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: First thing would like to understand as compared to 6 months back you definitely sound positive in terms of the pipeline, but if you could highlight as to how has been our win rates as compared to 6 months back or one year back, what do you see that improving?

Rajesh Subramaniam: Again, as I have answered 36 million ACV signing in Q1 is a clear demonstration of the fact that our conversion from our pipeline obviously has improved a lot more than what it was in the past. Different businesses have different rhythms, so it is not that we have one type of business where I can give you a win rate in each of the business, all I can say is that very positive about where the Healthcare businesses is and the strategy we had earmarked to focus on Healthcare and the Customer Management business is playing out, there are execution challenges, that is a way of life, but I think the impact we are making to customers from where we were two to three years back is at a different engagement as we speak and as I look into the future.

Riken Gopani: Just to get an understanding from any potential, one of your top clients rather has had some inorganic change that has happened recently. Could that add any further potential to your business with that client or…?

Rajesh Subramaniam: To be very honest too early for me to comment at this point in time. If there are any developments I will update the group as I have given the wins we have had in every quarter.

Riken Gopani: Was there any salary hike related impact for the quarter?

Rajesh Subramaniam: Yes, the wage hikes in India, Philippines, and Sri Lanka are roughly 8% to 10% for the agent population, and it is roughly between 1.5% to 3% in the US and UK. It is not for all the employees, employees follow a certain lifecycle. So when attrition happens, our entry level salaries do not get reset every year, it is people that follow a lifecycle of tenure, that have stayed with the company for certain periods of time, that the increases happen. So for the entire year salary increases following what happens in Q1 and then subsequently on the lifecycle and what happens, the SG&A increases are in Q2, so in the June to September quarter is when the salaries for the people in sales, general and administration gets effected. The overall impact on my wage bill will be about 2.5% to 3%, but as I have consistently maintained we have enough leverages to absorb and the margin guidance I have given is post factoring in the wage increases.

Riken Gopani: For the India business, the 20% decline YoY, is that more planned or there was a sharper decline than one would have expected?

Rajesh Subramaniam: There were multiple factors, so a) obviously there are lines of businesses that we took out. So if you take a look at my headcount between last year and this year has significantly reduced, plus Q1 also is typically slightly weaker quarter; Q1 is a very peculiar quarter; Q4 is when some of the marketing taps are opened up because it coincides with the year end of largely the Telcos that we work for, and in some of the banks, but Q1 typically is a little bit has to be carefully managed, because they give us the forecast of stable to increase growth from Q4 and they expect us to staff at those levels, well, the volumes are much more softer because they all have their own Q1 pressures, when they come to the end of the quarter. So Q1 typically is a quarter which historically has impacted us pretty significantly on the negative side, but we have learnt the ropes of the business in terms of how we manage that. So this quarter our attrition has spiked because of some of the reasons I had mentioned – the profitability has come in lower, it has remained profitable, it has not lost money, but it could have done better – and Q2 as I speak the corrections are clearly visible with a significant step up in the margin profile.

Riken Gopani: On the Healthcare side, if you could give me a broad understanding how much the Payer and the Provider side business grown broadly for the quarter?

Rajesh Subramaniam: For the quarter sequentially the Payer business revenues grew by about 6% to 7% in the Payer business, and in the Provider business, it has largely remained flat.

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

Ankit Pande: Regarding that relationship of $15 million annual run rate and that could be converted into larger revenues in Q3. Is that all in this particular announcement of $36 million win?

Rajesh Subramaniam: Between the first announcement of $15 million and the second announcement it is in, there is an expectation of further growth as we are negotiating right now, which I am hoping to bring home over the next 30 to 45 days.

Ankit Pande: Even that could contribute something this year?

Rajesh Subramaniam: That will have a minimalistic contribution in Q4, but it will scale beautifully in Q1 next year.

Ankit Pande: Any new entrants or exits that you would like to highlight in the US Collections or India portfolio?

Rajesh Subramaniam: Actually nothing, there has been volume rebalancing, but absolutely no exits, I think we have got some back office work with a domestic customer in India, highly profitable, very attractive gross margins, sweating our existing assets, leveraging our existing infrastructure, but it is very small, it is not material. In the Collections business, we are very focused on ensuring that unless we see a clear sustainable uptrend we are not looking to add logos because the learning curve in that business is between 8 to 10 months for collectors to come up to a level of productivity, historically has only bled us money, but if the turnaround is real, we will ride on the back of existing customers, and then if the recovery looks sustainable then we will see what our ensuing plans should be.

Ankit Pande: If Mr. Jain could help me with this, the hiring basically differentiating numbers at head count for quite a while now, so do you see yourself hiring in sufficient numbers in the second half of the year?

Rajesh Subramaniam: Absolutely.

Ankit Pande: So that will be a net positive number, am I right/

Rajesh Subramaniam: Second half, absolutely, yes, it is.

Ankit Pande: What is the pretax yield on our treasury income, just if you can give me a rough estimate?

Dinesh Jain: Our normal investment and the liquid plus fund, so I think those investments are between 9% to 10% as of today the yields are.

Moderator: Thank you. We have the next question from the line of Rumit Dugar from Religare Capital. Please go ahead.

Rumit Dugar: Hi, Rajesh, I had a question on the sales cycles. Now, when you incrementally are gaining wallet share within your customers, so this customer that you mentioned which is a non top 10 customer moving into top 10 and top 5, what is the sales cycle of the incremental wallet share that you gain – is it significantly lower than your 12 to 15-month or the initial sales cycle?

Rajesh Subramaniam: Very good question and the answer is absolutely, yes. Because once a customer is in and the performance is there to see, the scale up is pretty rapid. Also, they change the request every month.

Rumit Dugar: So should we think of it as a first sale cycle being 12 to 15 months, when incrementally even if the size of the deal is reasonably large, it can be a lot lower than that?

Rajesh Subramaniam: Absolutely.

Rumit Dugar: Just a follow-up on that $36 million ACV that you won, how much of that is going to come in this fiscal year – would half of it be in this fiscal year because from a run rate standpoint, I am just trying to understand?

Rajesh Subramaniam: From a run rate standpoint out of the $36 million, hopefully a little more than half will come in this fiscal.

Moderator: Thank you. As there are no further questions I now hand the floor back to Mr. Rajesh Subramaniam. Over to you.

Rajesh Subramaniam: Thank you everybody for your time. I know it is a Friday evening, so will not keep you from your families and friends, but as I said, it has been a pretty robust quarter from deal wins perspective and we definitely see the environment barring any other unforeseen events that can happen based on all the bad news we see and what is happening in the Middle East, assuming none of that impacts us, which I believe it should not. We are in a good place and I look forward to talking to all of you in our next quarter announcement, and I am happy to meet with you through the course of this quarter as a part of our IR framework. Thanks you everybody.

Moderator: Thank you. On behalf of Firstsource Solutions Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.