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Q3 FY2014 Earnings Call Transcript – January 31, 2014

CORPORATE PARTICIPANTS:

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

Quarter Three Earnings Conference Call, Q3FY14
January 31, 2014

Moderator Ladies and gentlemen good day and welcome to the Firstsource Solutions Limited Q3 FY14Earnings Conference Call. As a reminder all participants' 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 the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Iyer – Head of Strategy & Investor Relations at Firstsource Solutions. Thank you and over to you sir.

Ganesh Iyer Welcome everyone and thank you for joining us for the Q3 ended December 31st 2013 earnings call for Firstsource. Please note that the results factsheet and the presentation have been mailed to you and you can also view this on our website www.firstsource.com.

To take us through the results and to answer your questions we have with us today Mr. Rajesh Subramaniam – our Managing Director & 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 constitute as a forward-looking statement must be viewed in conjunction with uncertainties and the risk that we face. These uncertainties and risk 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 the Mr. Rajesh Subramaniam our Managing Direct & CEO.

Rajesh Subramaniam Thanks Ganesh and welcome everybody a very warm good evening, afternoon and morning depending on which part of the world you are in. So I will take you through a quick presentation and then we will open it up for Q&A.

So in terms of our Q3 FY14 Highlights:

Our operating revenue came in at Rs. 7,998 million compared to Rs. 7,132 million in Q3 of FY13 and Rs. 7,908 million in Q2 of FY14. The year-on-year growth has been 12.1% in rupee terms and the negative 2.3% in constant currency terms Quarter-on-Quarter sequentially it has been a 1.1% growth in rupee terms and a 1.1% negative in constant currency terms. The negative growth also reflects some of the termed

accounts that we initiated in some parts of the business which in we were losing money.

Operating EBIT:

Q3 FY14 operating EBIT at Rs. 742 million compared to Rs. 513 million in Q3 FY13 and Rs. 691 million in Q2 FY14. The year-on-year growth is 44.6% margin expansion by 210 basis points from 7.2% to 9.3% and quarter-on-quarter growth of 7.4% in absolute terms. So translating that in to profit after tax Q3 FY14 profit after tax came in at Rs. 483 million compared to Rs. 415 million in Q3 of last year and Rs. 448 million in Q2 of FY14. The year-on-year growth is at 16.5% and margin expansion by 20 basis points from 5.8% to 6%. Quarter-on-quarter growth of just under 8%.

In Q3 last year we did not have the full impact of interest cost which for two months it is only in December that we had the interest cost post the FCCB repayment because until then we were in a net interest earning position. So if actually Performa out the interest cost that we paid out this year to last year the actual the PAT growth would be somewhere in the 75% range. Having said that we will jump in to the YTD nine months performance of FY14. Operating revenues between April and December of FY14 came in at Rs. 2,310 million compared to Rs. 2,106 million in the same period last year. The year-on-year growth is just under 10% in rupee terms and a flat in constant currency terms.

Operating EBIT at Rs. 2,056 million compared to Rs. 1,299 million 58.3% growth year-on-year and profit after tax Rs. 1,341 million compared to Rs. 1,064 million demonstrating a year-on-year growth of 26.1% which the number would be closer to 165% to 170% if the interest cost for nine months were proforma in the previous period. Collections efforts were robust and cash and cash equivalents came in at Rs. 1,876 million compared to Rs. 1,500 million in the previous quarter and we repaid $11.25 million on December 31st 2013 and this cash balances post the repayment of $11.25 million. We de-grew our employee strength we had a net reduction of 444 employees in Q3. Currently our total employee strength is 29,946 as on December 31st; 19,652 in India and 10,294 based outside of India.

We have done well on attrition this quarter. Attrition in the offshore locations of India and Philippines came in at 49.2% compared to 57.3% and onshore in US and Europe just under 34% compared to 47.4% in Q2 of the same year. Domestic 92.8% compared to 85.6% which has seen a spike which will also linked to some of the attrition we saw in client accounts that we are going through churn. A seat capacity of 23,545 seats; 47 delivery centers pretty much actually the same as last year same period. Seat fill factor fell down to 78.2% compared to 80.8% as on September 30th 2013. This is largely attributed to the fact that businesses that were shutdown the seat capacity moves in to

an unallocated bucket which then we drive efficiency exercises either by driving growth or by restructuring such centers. So I am confident that our ability to get back to over 80% to 82% over the next two quarters is real based on the growth that we see between India and Philippines.

FX Hedges:

Outstanding FX hedges at $31 million; £50 million and AUD4 million. For the next 12 months we have covered 86% of our US Dollar exposure at Rs. 61.6 levels; 88% for the Pound at Rs. 96.6 and 83% for the Australian Dollar at Rs. 59.6. For the 12 to 24 months period we have covered 24% of the US Dollar at Rs. 68.4 and 46% for the Pound at Rs. 107.2.

Other Updates:

We have opened a new center in Cebu in Philippines for one of our existing UK BFSI clients. It has been a notable quarter in terms of some of the awards and accolades we won. Our FCIS, First Customer Intelligence which is an analytics productized service received the Frost & Sullivan North American New Product Innovation Award. We won several awards in the UK we were by leading outsourcing agencies like the National Outsourcing Association. We got the BPO project of the year 2013 for our partnership with Sky and we did win the overall outsourcing service provider of the year award.

We were also awarded the outsourcing partnership of the year in the Europe in call center and customer service awards 2013 for a longstanding relationship with Sky. A graphical representation of some of the key highlights. By geography Q3 FY14 17% of our revenues India and rest of the world which you see is a sequential decline in Q2 it was 18% and Q3 last year was 20%. North America continues to be the largest segment 46% in Q3 last year; 46% in Q2 this year and in the December quarter was 47%. Client concentration Q3 our top client was at 22% and top five 46%. This is Q3 for our largest client there is a positive impact of the holiday season which explains the growth. Also in among the consolidation exercise one of our clients which has been ramping down has also impacted while the top client in the December quarter has gone up.

From a vertical perspective Telecoms and Media largely stable. Telecoms and Media contribute 44%; 23% from Financial Services which has seen a growth and Healthcare at 32% which is largely remained the same as Q2. So coming down to the financial performance the P&L performance I think we have gone through these messages.

Key highlights being margin expansion in our EBITDA from 11.3% to 11.6% on revenue base of Rs. 7,998 million. Operating EBIT going up from 7.2% in Q3 last year to 9.3% which is a 210 basis points sequential increase. Interest expense reduced between Q2 and Q3 reflecting the repayment of the loan and net results the profit after tax at Rs. 483 million representing a 6% of the overall revenues. So it has been a pretty good quarter for us given the Q3 is seasonally are weakest quarter on account of the holiday season affecting our Healthcare and our Collections businesses but we have had some positive upsides from the scale up that we were implementing on some of our customers in T&M and BFSI and of course the shutdown of some of the domestic clients and the international Customer Management clients the impacts have we have seen a little bit of upside in accelerated impact.

From a nine months perspective again we have discussed these numbers. The only number which I will highlight is the operating EBITDA for nine months at 11.4% compared to 9.3% and operating EBIT representing 270 basis point improvement at 8.9% compared to 6.2%. So our overall profit maximization consolidation of our businesses and churning non profitable accounts and focus growth with specific productized interventions in accounts in our top 10 which we expect to scale over the next two, three years are paying off well. In terms of business outlook moving in to Q4 FY14; Q4 is seasonally our strongest quarter because the seasonality element of Collections business where tax refunds come in Q4 which improves the liquidation rates meaning the ability for Americans to pay their outstanding debt so normally there is a nice kicker and the revenue per collector is the highest in this quarter.

The cost of growth incurred in scaling up clients in the offshore estate between Cebu and India will start translating in to full blown revenues in profitability and the full impact of termination of the low margin clients will start again reflecting in Q4. So we have setup very nicely for Q4. Margin expansion will be significant and which sets up very well for FY15. So overall in summary the revenue growths are muted to moderate for FY14. Customer Management growth aided by increased business from existing customers; Healthcare segment continues to grow especially the Payer segment. We spoke about the consolidation process BFSI collections which has been a lag and a drag on our margins and our revenues over the last couple of years for the first time we are seeing some improvement very heartened to see the inventory increasing sharply in the US which I believe is a reflection of the expectation of economic growth in North America. Pipeline build up continues to be robust we have a seat on deal of two or three large deals which will come up for decisioning over the next four to six weeks.

Operating profit margin expansion between 150 to 200 basis points from FY13 will happen and there is a big take out going in to FY15 is we have consolidated our businesses setting it up well for supporting profitable growth in FY15 and we will demonstrate margin expansion as the full year benefits of the initiatives both in terms of

driving growth and cutting off loss leaders will reflect well coupled with uplift from our hedging which will be where the existing covers are at rates higher than what we would have in FY14 set up us well for FY15.

So that is the summary I had and with this I will hand it back to the moderators to open it up for Q&A.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Aishwarya K of Spark Capital. Please go ahead.

Srivatsan Ramchandran Hi Rajesh, Srivatsan here. Just wanted to know in terms of deals in South in the last quarter especially in some of the slightly larger deals we are chasing just wanted to get an update on how the deals wins are how close are we to close if not closed may be what states there in?

Rajesh Subramaniam Sure Srivatsa, our deal pipeline has improved significantly almost between last quarter to this quarter we are up by almost about 25% to 30%. Last quarter our total deal wins were about close to $40 million and of which a big portion came in the Customer Management segment were mostly exiting clients. We have had one big win in the US where we have won a three year TCV of $45 million with one of our existing customers in a different line of work which will set us well for next year and our banking clients in the UK are outsourcing and they are increasing their impetus. So we have multiple deals in various parts of the existing relationships where we are among the top two or among the top three which are going to come up over the next six to eight weeks. So my sense is from a deal pipeline perspective over the next six to eight weeks we have two or three deals which pretty much will be somewhere in the ACVs of about $20 million to $30 million where we are expecting a decision on and subsequently we have the pipeline of deals in our provider business is showing very good momentum.

Provider business for FY14 the new business ACV sold would be about somewhere between $17 million to $18 million which will translate in to $8 million to $9 million revenues in FY14 but the tail wind will carry in to next year based on how these revenues it takes anywhere between 6 months to 12 months for these ACVs to convert to revenues. And the Payer business continues to do very well and will grow at 15% to 17% based on the visibility we have. Collections business we intend to flat line. We do not intent to grow the business and we will drive a different level of margin expansion in the Collections business and our growth if any would be from existing profitable customers where the learning curve of the collectors is already clearly embedded and it does not take time to get incremental collectors to a level of profitability with the existing clients and ABU will decline next year. So 20% of our estate will be flat to de-growth and 80% of the estate will demonstrate very good growth rates based on the

pipeline we see and really excited about how FY15 will play out based on the deal signings we have had assessed on the relations which will happen before the end of current Fiscal.

Srivatsan Ramchandran Just wanted your comments on margins also like in your previous interaction you said that incremental revenues are coming at better margin. So just wanted to know, ex-FOREX which is something which is not in anybody's control how do you see margin shaping up and what will be the various drivers would it be predominantly business mix change that will drive a good margin trajectory, what are the various parameters that will drive and if possible some quantifications?

Rajesh Subramaniam From a quantification perspective Srivatsa, margins in Q4 I mean we definitely expect PAT, Profit After Tax to be anywhere between I guess 20% to 25% higher than Q3 based on what we believe the seasonality and the other factors I spoke to you about. Then normalizing for seasonality I would expect that we will start FY15 with an EBITDA profile of about 12% to 12.1% and my sense is anywhere between 13% to 13.5% EBITDA next year is something we definitely would aspire for with reasonable certainty of hitting 13% to 13.1% and with some luck 13.5%.

Srivatsan Ramchandran And Dinesh just wanted your thoughts on taxes you have seen almost an extended period of relatively low taxes. So just wanted to know how long can we expect these benign taxes to go on a going forward basis?

Dinesh Jain No, I think the tax rate we see the next year again it should not be really hugely increasing. I think the tax rate will undergo change probably in 2016 and 2017 because as I think I explained previously also that India has a tax holidays on account of being SEZ as well as the tax shield which we have got through FCCB repayment. So I think those will be available and I think will be between the range of 8% and 10% for this year as well as the next year.

Srivatsan Ramchandran And in 2016 we see spike. To what extent can spike go back to 21%?

Dinesh Jain No, it will not spike to that level because still I think there India businesses will still have SEZ benefits from a tax shield of the FCCB can go. I do not think it will go above 13% to 14%.

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

Mahesh Bendre During the quarter our sales have grown by 12% and out top client has actually grown much faster than the rest of the pack, I mean rest of the players have grown by 6% only. So why this sluggishness in clients excluding top client?

Rajesh Subramaniam In Q3 my top client operates in a business which does well during the holiday season and between the US shutdown, the Government shutdown in October and the holiday season about 50% to 60% of my business shows seasonal weakness. So a combination of both is a result of some of the matrices that you see.

Mahesh Bendre And sir, the seat fill factor is probably lowest in the last six quarters?

Rajesh Subramaniam That is right. So some of the seats fill earlier when we have terminated account, we have managed to shut the centers down. Right now some of the clients we have terminated are a part of a shared facility with other programs which basically I cannot shutdown capacity because it is a part of an overall SEZ campus or it is a part of an overall facility in Philippines. So the incremental growth that we see will get the fill factor up and absorb all the unallocated costs that potentially can impact us. So I am not too worried about because the absolute savings from cash it is far greater than absorbing some of the unallocated costs as a result of shutting down programs. And with the growth that we see next year we will definitely expect our fill factor to increase subject to unforeseen developments where we need to open new centers in cities or geographies which hitherto can increase the denominator of number of seats in operation. But apart from that in a way we are very confident of bringing those operating leverages back next year.

Mahesh Bendre Despite low seat fill factor and the sales per employee metrics has shown significant improvement. It has improved 18% on YOY basis? Any reasons?

Rajesh Subramaniam So revenue per se again a very simple answer to you is theoretically take an example of if I grow my revenues in the US or UK so if I add 100 people in US or UK they could be generating me anywhere between $45,000 to $60,000 revenue per annum, right? So if I add 100 people let us say at $50,000 it gives me $500,000 revenue. Then I reduce 444 people in India and in Philippines and in India it could be in Tier-2, Tier-3 cities where let us say 70% of this 444 is in India so let us make that number 300 and they generate a revenue for me of Rs. 2.5 lakhs per annum so let us say Rs. 2.5 lakhs per annum works out to about $5000. So $5000 multiplied by 300 is $150,000. So I have reduced 300 employees and lost $150,000 in revenues but I have added 100 employees and generated $500,000. So delta of $350,000 gets addressed by why my revenue per employee has increased.

Mahesh Bendre Sir, last question. You have talked about the margin expansion of 150 to 200 basis points next year. So what is the outlook on volume growth next year?

Rajesh Subramaniam Volume growth given where we are today and the visibility that we have at this point in time on a constant currency basis expecting anywhere between 7% to 10%; 7% for sure and that 10% could be 11% to 12% if we win all the deals on the table.

Moderator Thank you very much. Our next question is from Riken Gopani of Infina Finance. Please go ahead.

Riken Gopani Sir, first thing just wanted to understand in terms of the segmental reporting that you all have done the India margins look like it is 20% versus 10% last quarter. Any specific reason why it is looking so high?

Rajesh Subramaniam Yeah, I think the India piece, when you say India, it is India and it includes Philippines also. So shutting down one of the large telecos in Philippines, UK Telco is reflecting in the margin plus we also have banking client which is gone live in Philippines. So it is some of the core off shoring growth, the cost of growth that we implemented which went live sooner than expected it is also one of the reason which collaborates to the fact that our profitability has done better than Q2 despite being a weak quarter. So some of that is why you see is in India.

Riken Gopani And the revenue de-growth in the ROW as well as the margin coming down what is that on account of?

Rajesh Subramaniam That is in one of our businesses which was Telco in Australia I think in a consolidation of the business went to a very large competitor I mean they had 80% of their estate we had 20% of the estate and that 20% was consolidated in to them and that fall off is explained by the metric you are seeking.

Riken Gopani That is why we see that the Telecom segment has not done well despite your key customer top client doing quite well this quarter? And the other things is specifically on the debt side actually there would be a component of debt even in the current liabilities if you could tell me the total debt as on date in the balance sheet now?

Rajesh Subramaniam See the total long term net debt is about $136 million as of December. Then we have working capital debt which is backed by our current assets with this significant margin. So of the $136 million one more installment of $11.25 million is one we repaid at the end of March. And it is our expectation that the net debt-to-EBITDA should be sub one by March 2015 and our net debt should be in a very comfortable situation.

Riken Gopani Sir, one specific question on the peer side of the business you were mentioning that you are confident about a 12% to 15% in that business for next year if you could highlight the key trends that you are seeing which should lead to this kind of a growth for next year. And any specific expectations which drive it in terms of the success of the Obama Care enrolments or anything specific that you would like to highlight?

Rajesh Subramaniam So I think the Obama Care it was a little bit of a mix bag on October 1st because obviously the Healthcare exchanges then pick up the enrolments the speed at which was expected to but it obviously subsequently has. But what has happened is the

enrolments have scaled from I think 100,000 to 200,000 people per month. Now it is almost come up to 2 million to 2.5 million enrolments and we are seeing increased momentum of handling post enrolment servicing of people that have come online in pretty much many of our top seven, eight clients. So that is clearly a momentum driver for us going in to next year. Plus there are other specific bridging products that our customers brought out which were for people with pre-existing conditions that need coverage and some of those products we are supporting them they would be time bound projects but we are supporting them which is going to give us an impetus.

So these are the two vectors we see as far as the immediate opportunities as a fall out of the ACA. The core claims processing and adjudication business is doing well. Again a combination of the fact that lot of the big players are acquiring smaller players or members in smaller plans are getting out of those plans and getting in to bigger plans. So combination of that involves a certain level of either systems conversion or getting more people on and servicing them. So a combination of these factors will ensure a very robust growth at least for the next couple of years we see some very robust growth on the payer side.

On the provider side to complete the second side of the coin the lacuna in the enrolment side has not given the opportunities we thought it would. So the provider side could have done better if the market conditions of how the enrolments will play would have worked out. So on the provider side as I said the only data point is the ACVs of businesses won last year and the conversion to revenues and the tail carrying in to next year.

On ACA related the enrolment has been sluggish so we expected X and we are likely to come in at about 0.5X in our FY14 numbers but I am not concerned because at a business level any of those shortfalls are more than well made up but as the enrolment start in October, November, December for calendar year FY15 then I see hopefully with the exchanges and the glitches spec hopefully from Q3 of next year onwards we should see very strong momentum in the provider business linked to this element. There are several other opportunities which are discussed but right now I think the priorities are around enrolment and then the influx of the walk in to the hospitals post the enrolment and funnily what is happening in the US is people with preexisting conditions are and people who are sick and uninsured are enrolling lot faster and people who are younger where the expectation was young people who will enroll will subsidize the old people they are not enrolling in are willing to pay a penalty because the penalty is cheaper than enrolling and then paying premium.

So all kinds of different dynamics are being played out it will be interesting to see how things pan out over the next three months. On the payer side it is clear; on the provider side it is still in work-in-progress.

Riken Gopani Is there a number in terms of say these many enrolments would be required for you to achieve X amount of growth for the next year in terms of the provider side of the business or you would still say there would be a possibility for you achieving at least a 7% to 8% growth if this does not work out as per your plan?

Rajesh Subramaniam Excellent question. Enrolment is time bound it is project based. So it happens you make anywhere from $25 to $75 in enrolment depending on the State of California you make $75; in Alabama you will make $25; in Kentucky $40 so I think to that extent enrolment definitely in Q3 we see to do well. And I do not want to comment on growth rates right now because there are lot of moving parts but all I can say is that FY15 will be a much better year for the provider business than FY14.

Moderator Thank you very much. We will take our next question from Rumit Dugar of Religare Capital Market. Please go ahead.

Rumit Dugar I had a couple of questions. The first one was can you talk a little bit about the investments that you need to make in sales, marketing or specific verticals over the next year or so to drive medium-to long-term growth and what are the verticals or areas that you are looking at? Secondly, I know you spoke a little bit about the deal pipeline could you give us a little bit of a comparison of how this is this year versus same time last year and has there been significant improvement in the win ratios?

Rajesh Subramaniam So I will take the first question. So Rumit, I have to give you a long answer so I will try and keep it as short and when we meet in person I will give you a lot more details in terms of the investments and how we are approaching the market. So as I have stated the two focus areas for the company over the next three years is around Healthcare vertical and the Customer Management horizontal. In the customer horizontal business there are three initiatives which we are driving to drive a different level of client engagement. The first one being how do I reduce cost per contact for my customer which includes arguments around deflection which includes arguments around what I can take through an IVR on a self-service basis?

The second argument in the Customer Management is the interactions are now so multi-channel they are just not through the call center it is through web, email, chat and Social Media interactions where we need to funnel and distill data which make sense to our customers to help drive the measurement of two metrics; how do I improve the revenues, either sales through voice or sales through service. And two, how do I include the advocacy of my customer in his journey and brand recall which then has a direct impact on churn and ability to sell more.

So given this there is a fair level of analytics required in base lining and measuring them. So right now we are working in partnership with couple of companies one a

product platform; one is services platform in creating Proof of Concept this has been happening over the last six, eight months which then we will take some strategic decisions if those PoCs workout going forward and some of these analytic initiatives not only help in developing productized services which makes our relationship with our customers lot more stickier it is to a point of explaining to the customers the 360 degree view we need on their business because either I am one of two partners or one of three partners including their captive in the market. So where I sometimes get a uni-dimensional view and not a three-dimensional view.

So right now the kind of impacts we are making is now forcing them to open up to have conversations with us which we believe will drive a different level of growth and non-linearity. It could be small in the beginning in terms of the incremental value added services but the margin profile will be attractive. The second one is the clear focus on the digital strategy around ensuring that one of the key implements for reducing cost per contact is around how we deflect and some of the initiatives and the investments we have made around smart omissions some of the productized tools we have over the years of learning is bearing fruit. So that is the second initiative and the third initiative which is as important is using analytics in aligning the various systems in the company which enables us to cross pollinate some of the best practices we have between all the BUs that we have whereby reporting and taking action on items becomes a lot more quicker. So these are the three initiatives.

So now having said these, the first two initiatives will drive revenues the third will drive margins. Now how are we going to do this we are now investing in our business transformation of a different order of magnitude in building capabilities which is a centralized nerve wire function. Similarly we have now product specialists which we are hiring in the market who will assist the sales guys because the sales guys can go up to a certain point of opening the door and engaging in conversations post with the product specialists step in.

So we have different profile of solutions architects and products specialists in the three businesses we are in; in Healthcare, T&M and BFSI; T&M, BFSI more focused on the digital journey and the vertical elements around specific products where we have stickiness with clients and similarly there are nuances in the Healthcare provider business has nuances around improving velocity of cash turning bills in to cash and the analytics about the managing and measuring the lifecycle of a patient that walks in through the life cycle that he has as he visits them because I mean people fall sick and they go to multiple visits to the hospital and managing and measuring member care and so that the hospital can drive a different level of both service and reduction in cost.

So various businesses there are various initiatives people are being hired, investments in sales and CRM teams the other alignment we did was we took CRM out of sales and

we align them with operations so that walking the corridors and reacting to situations is a lot more immediate. Sales relationship with the existing customers is linked to new products and hunting for new logos so some of these re-log has been done the teams are a lot more focused; lot more aligned in terms of what their accountability in KRAs are and the teams are being beefed up across all level right from pre-sales bid management in to solutions architect and product development specialists in the BTO offers.

And these investments have been budgeted for and in fact people will start coming on board over the next, three months and hopefully six months we should start seeing some impact both on the pipeline and in terms of conversion rates of existing pipelines. Now on the second question product pipeline last year to this year to be very honest Rumit, there is a fair bit of cleanup we have done in terms of quality of the pipeline so at this point in time quarter-on-quarter I can tell you how the pipeline has increased between last year to this year we have now created a lot more matured tiering of the pipeline across harmonizing it across businesses. So Tier-1, Tier-2, Tier3 time to conversion and we are trying some analytics that to figure out what interventions; who focuses where. But today my pipeline is robust enough to take care of my growth aspirations assuming I win at least 33% of the deals that I have a seat on the table which will convert in the next few weeks.

And there are some deals which are big €40 million or deals which are binary if we lose them they go out of the pipelines. So some of those decisions are expected in three months but at this point in time my Customer Management pipeline and my Healthcare pipeline is robust it will get me in a place where I want to be in FY15 if the success ratios play out. Collections slash lining it the growth will only be from existing customers we are not adding new customers because the learning curve of a collector to breakeven is about 8 to 9 months and for new customers it basically ensures that I again start losing money and given the economic environments for the last two years we are little skeptical but existing customers we will grow and the if the economic environment turns which what we have seen in the first signs where the inventory of debt is improving which is again reflecting in the prognosis for North America next year which is robust economic performance. May be growth will come back but at this point in time it is difficult for me to predict and in my domestic business practically we do not have a pipelines because we are not taking on new customers and we are harvesting it for value at this point of time. Hopefully, it is a long way to answer but hopefully it gives you some perspective from where we are today.

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

Mahesh Bendre Sir, 83% of revenue is derived from the US and UK and you highlighted the strategies you are adopting for the growth, still we are talking about 7% to 10% growth in constant currency. So are we conservative in our approach for next year?

Rajesh Subramaniam No, I think in our business the sales cycles are long unlike project based IT business where you can hunt, kill and eat in the same quarter in our business sales cycles are long so a lot of my growth has to be supported by conversions of my existing pipeline and growth from existing customers. So what I do not have visibility today is how rapidly will some of my existing customers grow again next year. So while we have a certain basis that we are budgeted for next year based on what has been told typically we have seen that those customers grow over and above what we believe that we have got visibility and sometimes the environment is weak they have also grown lower than what their expectations are. So I am comfortable with the numbers we have right now and the focuses from muted growth next year a 7% to 10% growth with continuing improvement in margins will definitely demonstrate a much higher Return on Equity that we will be able to generate in the company.

Mahesh Bendre Sir, last question. Do you think the India business has bottomed out in terms of contribution?

Rajesh Subramaniam I think that is a question you should ask to my customers.

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

Rajesh Subramaniam Ladies and gentlemen thanks for your time today. Thanks for joining the call and participating in it. Our journey is obviously the worst is behind us and we are pretty excited about our immediate future and the horizon next that we see over the next couple of years. And I look forward to engaging with some of you on the call on a one-on-one basis as and when you feel appropriate and I definitely look forward to talking to all of you in our next Earnings Call. Until then thank you very much and have a great day.

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