# Q3 FY2013 Earnings Call Transcript – Feb 14, 2012

**CORPORATE PARTICIPANTS**:

- Mr. Rajesh Subramaniam – Managing Director and Chief Executive Officer
- Mr. Dinesh Jain – CFO
- Mr. Yash Gadodia – Christensen Investor Relations

Firstsource Solutions Limited
Quarter Three Earnings Conference Call, Q3 FY13
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**Moderator**

Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q3 FY13 Earnings Conference Call. As a reminder for the duration of this conference, 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 Should you 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. At this time I would 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 Inba. Good evening participants from Asia, and Good Morning to participants from US and Europe. Welcome everyone and thank you for joining us on the Q3 FY13 Earnings Call Please note that the results, fact sheet, and presentation have been mailed across to you and you can also see this on the website www.firstsource.com.

To take us through the results and to answer your queries we have with us today Rajesh Subramaniam – Managing Director & CEO and Dinesh Jain – 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 our 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. With that said I would now like to hand over the call to Rajesh Subramaniam - Managing Director & CEO.

**Rajesh Subramanian**

Hello everybody and a very warm welcome to our Earnings Call. So I am going to take you through a presentation post which we will open up for Q&As. Q3FY13 has been a very good quarter for us in terms of our operating performance. Operating revenues came in at Rs. 7,132 million. It was flat in constant currency terms and down by 0.6% in rupee terms. Q3 for people who have been following our company closely is seasonally our weakest quarter on account of the holiday season in the US contributed by both the Christmas season and the Thanksgiving season, and some of our issues around revenue being flat were also contributed by Hurricane Sandy. We saw some of our centers in the New York State affected for a couple of days. But despite that, we have managed revenues which have been more or less flat with Q2 but demonstrating a robust growth of about close to 24% year-on-year and 10.5% in constant currency terms. Our operating profit has shown remarkable improvement. Our operating EBIT came in at 7.2% in Q3, higher by 90 basis points compared to Q2. This is largely on account of continuing efficiencies that we are driving as we create better operating structures in our business model. We have had very effective contract management principles being enforced with our clients. We are getting the benefit of price increases contractually where we are allowed and we are also ensuring that SLA compliances are aligned to market realities and not to contracting principles which might not be tenable in the current environment. Coupled with stabilization of ramps in our domestic business, in Q1 of FY13, we had a huge cost of growth from one of our domestic business clients which is stabilized and contributing positively to our operating profit. In our business any period of ramp at cost of growth which is the time taken to hire, recruit, train people before they produce revenues, which supports growth in ensuing quarters has also had an impact in terms of depressing margins to the extent where people are not contributing to revenues and profits commiserated, especially this was evident in our healthcare payer segment. Year-on-year the operating profit margin expansion has been 370 basis points. The other key highlights of the quarter as all of you are aware; the RP-Sanjiv Goenka Group is a new promoter of the company. They replaced ICICI Bank as a promoter of the company. With a combination of primary infusion in the company, secondary purchase from 3 anchor shareholders and the open offer, they today own slightly under 57% of the company, so significant controlling shareholders. With the combination of the preferential allotment, the cash the company had and additional leverage that we took, we successfully repaid our FCCB obligation of $237 million on the 4th of December in full. Some of the other highlights relating to the company, as of December 31, we had 31,902 employees in the company. 21,345 based in India and 10,557 employees based outside of India. There was a net reduction of 463 employees in Q3FY13 compared to our net addition of 830 employees in Q3FY12. The reduction in the employees is again as we drive operational efficiencies, it all comes back to the more efficiencies I drive, the better utilization matrix I get, it ultimately results in the reduction of the employees, so this has been one of the smaller contributors to our margin expansion, but it just gives you a sense as to how we are driving operational efficiencies which will continue going forward.

Attrition, there was a spike in our Indian and Philippines estate which is where the core of our international offshore work is delivered It came in at 59.4% compared to 55.9% in Q2FY13, and some of the excess attrition we have seen is largely in our Philippines estate where we are seeing spike in attrition rates. Onshore has come in much better, in the US and Europe, in Q2FY13 we were at 45.2% and that has come in at 35.8%. The domestic business has seen marginal improvement from 89.7% in Q2FY13 to 86% in Q3FY13. In terms of our capacity, 24,484 seats worldwide. We consolidated centers, we shut down one center in Mumbai, 274 seats were reduced, 47 delivery centers as on December 31st 2012, compared to 48 on September 30th 2012. And our seat fill factor is 81% in Q3FY13 compared to 80% in Q2FY13, so again all these add to improvement in our margins and they make small impacts but you know many small impacts make a material improvement to our margin profile. In terms of our FX hedges outstanding FX hedges at $26 million, £34 million, and AUD 10 million. For Q4FY13 we are covered 88% overall at Rs. 52 for the US dollar, 83 to the Pound, and 51 to the AUD. For FY14, we have overall have a 79% coverage with a USD at 56 levels, Pound at about 88 levels, and the AUD at 54 levels.

The other highlights in terms of our business mix is, client concentration, our top client contributed 18% of our revenues in Q3FY13 compared to 17% in Q2FY13 and top five clients are 46% compared to 47%. By delivery location, onshore is 67%, offshore is 22% and domestic is 11%. In terms of verticals, telecom and media continues to be the largest contributor with 45%, followed by healthcare 31% and BFSI 23% in Q3FY13, so largely the mix has remained the same between Q2 and Q3. By geography in Q3FY13, North America contributed 45%, UK 35% and India and rest of the world 20%, pretty much the same which was evidenced in Q2FY13.

Let me touch upon our financial performance. I touched upon the fact that revenues were flat on a constant currency basis, it was down by 0.6% quarter-on-quarter. Year-on-year, we are up by about 24%, so Q3FY12 our revenues were Rs. 5,771 million and it was Rs. 7,132 million in Q3FY13, so the revenue growth is clearly evident. Our operating EBITDA has seen a very nice margin expansion year-on-year; it was 7.5% in Q3FY12, 10.2% in Q3FY13. Quarter-on-quarter in absolute terms it has grown 6.9% and year-on-year it has grown by 69.2%. Our operating profit and profit after tax have also demonstrated margin expansion which basically demonstrates that whatever has helped me improve my gross margin has flown down right through to my bottom-line. So at a 3.5% EBIT in Q3FY12 has improved to 7.2% in Q3FY13, in absolutes Rs. 201 million to 513 million respectively. Quarter-on-quarter growth of 13.5%, year-on-year growth of 155.5%. Profit after tax 504.9% growth year-on-year from Rs. 69 million to Rs. 415 million and from a PAT margin expansion perspective, from 1.2% to 5.8%. Sequentially margin expansion of 80 basis points translating into 15.4% growth quarter-on-quarter and year-on-year 504.9%. All the efficiency gains, the initiatives we had undertaken historically are playing themselves out and I expect them to continue in Q4 and as we look out in FY14. On a 9-month to 9-month basis, revenues are up 29% from Rs. 16,332 million to Rs. 21,060 million. Operating EBITDA from 1,323 million to 1,965 million, 48.6% growth year-on-year. Operating EBIT from Rs. 648 million to Rs. 1299 million, a 100.3% growth year-on-year with a margin expansion of 220 basis points and profit after tax has shown a significant improvement from Rs. 390 million to Rs. 1,064 million implying a growth of 173.1% year-on-year with a PAT margin expansion from 2.4% to 5.1%.

In terms of business outlook moving into Q4FY13, positive revenue growth because Q4 seasonally is a very strong quarter for us in North America and UK from a delivery location especially in our collections business, partially offset by lesser number of working days in February, in the whole offshore estate, but despite some of these, we do expect to grow between Q3FY13 and Q4FY13, also on the back of some the cost of growth elements I discussed in Q3FY13, will start contributing to revenues in Q4FY13. The margin expansion will continue. We will come in with better EBITDA, EBIT margins compared to Q3FY13 in Q4FY13. At the PAT level I expect some growth, not directly linear to the growth that you would in our EBITDA and EBIT, because we will have a full quarter of interest cost that is going to be charged to our P&L compared to one month of interest cost that we saw in Q3FY13. You will realize that we were holding significant investment yielding instruments which were liquidated end of November for the repayment of FCCB. We have taken additional debt to repay our FCCB, a combination of which is going to see an interest charge which will ensure that the PAT growth will not be linear, but still we do expect to demonstrate PAT growth between Q3FY13 and Q4FY13. So overall FY13 has been a great turnaround year for the company from where we were in FY12. Telecom and media leads the charge in terms of growth and the kind of transformational deals that we are getting feet on the table in the UK and now we are seeing some of those activities in the US. Healthcare continues to hold up the maximum promise for us, both in our provider segment and in our payer segments. In our provider segment we have announced the appointment of Mr. David Stricker who comes in with a very strong operating and customer focused background in the healthcare provider solutions market. Joins us from Accretive Health, where he joined them in the early days and saw the company build up to a billion plus revenue, and 3 billion market cap over a long period of time. So we are very excited about the prospects that are presented to us by healthcare reforms both on the payer and provider side, and I think we are well positioned with the deep rooted relationships that we have across both the segments as we look out in the future to see how we drive superior growth rates. With that I will conclude my summary and the presentation.

**Yash Gadodia** Thanks Rajesh, Inba, we can now open for Q&A.

**Moderator** Ladies and Gentlemen, we will now begin the question and answer. Our first question is from Srivathsan Ramachandran of Spark Capital. Please go ahead.

**Srivathsan** Congrats on paying off FCCB. I will just start off first with the core business questions. As we say, healthcare, we do understand offers a lot of promise, it is almost now three months since Obama coming back and then month and a half into this quarter, do you see actual decision making changing on the ground, both on the payer side and the provider side especially in the healthcare space.

**Rajesh Subramaniam** It is great question, I think ObamaCare is real. Things in healthcare unlike the banking industry don't move at a speed, it takes time, plus you have states that have Republican mandate, states which have Democratic mandate, so there are some that will embrace, some that will resist, but ultimately would come around is our view. Now the only question is that change is going to come. The number of people that are going to get enrolled is going to be real, the number of people that are in the uninsured bucket that will enroll for Medicaid programs across states is real. The cost to serve for the payers will come under pressure as they move out from dealing with specific cases linked to an insurance policy as they get measured on measuring the wellness of an insured. So the fact is, there are several theories which are out there, which we believe will play themselves out. Will they play themselves out in the next three to six months, unlikely, will they play themselves out over the next two to three years, definitely yes. The key strength for us is that the 800 hospitals that we work for and a lot of them are in the top 20, top 30 hospitals in the US, and of course we work for some of the largest payers. So we have the relationships and we know the propositions that we need to build which I don't want to articulate on this call at this point in time in terms of what our specific propositions are, but we will be taking multiple bets, we will be building a product suite to ensure some of the opportunities. Some will work, some will not work, but at the end of the day, it all comes back to ensuring that we are addressing our clients requirement by helping them understand and architect as they navigate through what the implications of this healthcare reforms means, nobody has a clear understanding of exactly how this is going to play itself out in its entirety but there will be low hanging fruits and their will be certain complexities which will play itself out which we believe we are well positioned.

**Srivathsan** My next question is, historically Q4 has been a good kicker mainly from the collection business, do you think that seasonality will play out or this overall macroeconomic weakness will have an impact.

**Rajesh Subramaniam** My Q4FY13 is going to be much better than my Q3FY13. Is my Q4 FY13 is going to be better than my Q4 FY12, I don't know and may be I don't think so because what has happened between FY12 and FY13 is that the inventory of debt has shrunk from that period to now, but the tax season is real. People do get their refunds in January, starting mid to end January, and the tax season typically is strongest in February and March, so yes the tax season will kick in, it will be a significant improvement in my numbers, the contribution from that business compared to Q3 FY13, but I don't think it is going to be better than what I did in Q4 of last year.

**Srivathsan** Sure, just a couple of questions on the balance sheet. Just wanted to understand what is the current debt outstanding, the nature of the debt, and repayment, and interest cost.

**Rajesh Subramaniam** Nature of the debt is, our net debt is about 215 million, gross debt is about 230 million, we have principal repayments of 11.25 million commencing June this year, which is 45 million a year. Our interest cost are roughly about $11 million a year and we are very confident with our internal cash flow build up next year based on the EBITDA improvements that we will easily be able to service these next year.

**Srivathsan** $11 million of annual interest cost that's, 5% effective cost.

**Rajesh Subramaniam** Yes that is right.

**Srivathsan** In spite of a fresh capital infusion I think networks more or less being flat to declining, any specific adjustments have gone through why net worth is flat.

**Rajesh Subramaniam** We merged RevIT, it was a subsidiary of the company, which came through one of our earlier acquisitions that we did in 2005, so we merged that and what has happened is, it has reduced my net worth by 97 crores and reduced my goodwill by the same amount.

**Moderator** The next question is from Neeraj Somaiya of Rose Red Management. Please go ahead

**Neeraj Somaiya** My first question is you have three parts of the business, one is, MedAssist, one is the customer management business, and one is the domestic business and in a scenario where BPOs are large in size or with big companies like Infosys or Wipro, how do you grow them? Would you probably close one, sell one, I mean, I understand that it is very easy to say, but to do it is very difficult, and you have already reached a utilization of 80%, so how would you grow it from here and how would you take it from here probably in the next two to three years, or may be whatever timeframe you think is right.

**Rajesh Subramaniam** Great question, so let me give you a sense of our business profile. For me, healthcare and my customer management business across the US and UK are the pillars that my investments are going to be focused on as we look out into the future. My collections business is in a holding pattern because it is right now in the worst end of economic cycle in the US. For us to make money in that business, a) there has to be a complete credit recovery, so post the credit recovery the debt becomes charged off 180 day post the credit markets coming back, so my sense is, at least a couple of years away from seeing any kind of significant momentum in the business as I sit here today. I may be completely wrong, I might be second guessing something which obviously I have no idea about. But as I see the business that I am and the clients that I deal with all I can say is that my clients are consolidating, they are getting into a smaller vendor base, but my clients are also behaving irrationally in terms of the quality of portfolio that I get and how I collect off them. So, right now in this business I am so predicated on the external environment, it is difficult for me to tell you exactly how it is going to play itself forward over the next two years but all I can say is that I have a very good operator that manages the business and is able to work through the cost structure and alignment to the market realities and ensure that it does not bleed cash. Next question is around my domestic business that is again in my holding pattern. That is the business where next year, we have taken up concerted call that we will not grow that business because again irrational behaviors of my customers, 90% of my revenues come from telcos, you know what the state of the telcos in India is, we are very clear, we are enforcing our rights contractually in this business and we are very happy for clients to take tough calls on us if they believe that is the right thing for them to do.

**Neeraj Somaiya** A very positive step.

**Rajesh Subramaniam** So right now the key is, any business that is losing money, we have taken a very hard look and we are having those conversations with the business leaders and with their respective clients, and so all this I expect will have an impact. For me, profitable growth is more meaningful than growth for the sake of growth. So at some level I might even downsize some of my businesses because I want to make sure it releases resources that I can invest in businesses where I believe growth can be far superior. So as I said, as I look into the future healthcare, provider - payer, very critical for us, the whole customer management business, telecom and media, I have significant transformational capabilities, I get seat on every big deal that I see in the UK and continental Europe, very critical, we need to add capabilities there. We know exactly what we need to do to make our relationship with clients a lot stickier around the whole digital media strategy, around the analytics engine that we need to build for us to drive superior growth rates with our clients and financial services, which as a vertical has been a laggard, we are seeing green shoots of recovery in the UK, largely driven by specific products, there has been so much miss selling of financial products that banks are earmarking significant money for complying with mis-selling of insurance against credit cards, loans, so we have built significant domain around this whole PPI product which we are seeing a lot of momentum building up across UK and the Republic of Ireland. So that is the business that we will grow, it is a product that we will ensure that we try and cross sell to as many customers as possible in UK and presumably some of those will start affecting markets like US and Australia at some point in time. So there are pockets of excellence that we will leverage but as I look into the future, it is telecoms and media, contact center management, and healthcare. These are three legs to the stool on which we believe we can drive growth rates both on the top-line and bottom-line which will ensure we get back some of our lost margin profile and customer stickiness that we have seen in the past.

**Neeraj Somaiya** Only thing, healthcare, could you just explain how big is the business now, and how big is MedAssist, because when it was acquired, it was a very different time in the US itself. So it has transformed a lot in the last five years, so how big are you in the healthcare and how much growth engine can MedAssist be and how big is the industry itself, which you cater to?

**Rajesh Subramaniam** Two ends to it, so one is MedAssist which is my provider side of the business. The current business that I am in, which is in the receivables cycle management space, over the next 2 to 3 years, we definitely see opportunities with more enrolments coming up as the healthcare reforms play itself out. And the only lagging factor there would be what are the budgets that the Medicaids, Charities, and the other programs which basically pay for the uncompensated care as patients walk into the hospital so that is still an unknown. We are seeing payer delays, we are seeing delays, and hospitals are not getting paid on time, which then affects our DSOs. So, we are watching that space closely. But people fall sick and people go to hospital and people are not insured. So, somebody needs to pay for that. In the US you cannot deny people treatment. We all know that the fact the number I have is 50,000 to 60,000 a month, migrants that get into the US, so that population is increasing. So my only remit is the fact that it is an attractive business. Obamacare will have an impact, will have a significantly positive impact for us in the short term. But if we stay in the same place over the next three to four years, our differentiation in the market will disappear and that is the reason why we have got in a new CEO in that business, that comes from a different part of woods, where he has worked in a company that grew from zero to a billion dollars in less than 5 years based on what would be the next generation of solutions that need to be built in that marketplace. And the core strength that we have, 800 hospitals more than 10 to 15 years of relationships, I think we have something going there that we can definitely build on. So much can I grow? To be very honest, MedAssist as a platform historically has been a disappointment in terms of the promise and what is has delivered and our expectations. We are still working through and modeling out several scenarios as based on the new ideas, what it can. It is too early for me to comment, but at the basic minimum to expect is 7 to 8% growth is for sure from what it was last year to this year, but driving different growth rates from that point in time will take time as we build a product portfolios and ideas to go into the hospital segment. So on the payer side, growth rates will be in excess of 15% on the business that we have. Because of the impact of healthcare reforms, payers are taking a lot more proactive action. The standardized platforms that they need to deal with the situation as they look out into pooling their collective interest in healthcare exchanges and other mechanisms through which people can buy insurance at a cheaper cost. So, there are significant opportunities that are coming out from that segment and based on our pipeline and our current customer feedback, we definitely expect that expecting a 15% growth at a minimum for the next couple of years should be possible.

**Neeraj Somaiya** One more question on this would be that you acquired this company at a price and you did a great job. RevIT you wrote-off 97 crores, I think it is the best thing which I think the management at Firstsource has done in the last few years. Would you do something in MedAssist also, could you bring it to a level which is reality on the books or would you continue to keep it on the historical value? Your other three, four call center competitors which are listed are debt free. How would you achieve this either by raising capital or cash flow would be too long. How would you do it to bring yourself to the other three, these three have become very strong now, all the three have raised money only as some point or the other. How would you compete with those three, they are three independent very large ones

**Rajesh Subramaniam** Very good question Neeraj I mean, it is too early for me to say whether I am going to raise money or how I am going to repay debt? I know that I need to repay 45 million over the next four years so that I definitely will. It takes four years and will I generate super normal cash flows for me to create a different amortization schedule, for the next one year it is unlikely, over the next three years, will I create product interventions in my business profile that can generate superior cash flow, that can help me invest and do other things, I do not know. One is debt in isolation and debt seen as a combination of net debt. So the question is how much of my cash build up happens over the next four years, to reduce that amount. So it is too early for me to say and really I cannot speculate at this point in time whether I will raise equity at some point in time to repay debt, because again servicing equity is more expensive than servicing debt, especially when it is at 5% and it is hedged. It is completely hedged with my onshore cash flows. I think the key for us is, how do we build cash backed by performance that ultimately reduces my net debt and increases my equity value and my enterprise value.

**Neeraj Somaiya** What about revaluing MedAssist, would you look at that or would you continue to hold it at book value?

**Rajesh Subramaniam** I think at this point in time the audit committee and board have taken a decision to keep it at the level it is, we believe there is no impairment required. But Neeraj you know it, I know it, whatever we have paid and whatever has happened is reflected in my stock price, so I cannot see it getting worse.

**Neeraj Somaiya** We were investors that time at Rs 95, it went all the way to Rs 10.

**Rajesh Subramaniam** All I can say is that in my outlook, the worst is behind us, and the runway is clear, and we know exactly what we need to do.

**Neeraj Somaiya** One more question would be, how would the senior management be incentivised in Firstsource because whatever said and done, in IT companies, do you have stock options or with new management coming in? How does it work? What is the incentive for you guys to stay on, just being very factual, because that is the way IT business is and in the end people drive it?

**Rajesh Subramaniam** Nothing has changed. The acquisition of the company has not resulted in the cancellation of our options or anything. So, management is still incentivised and they continue to be.

**Neeraj Somaiya** Right now you are about $130 to 140 million company by revenues, when do you see threshold which I see is about 200 million a quarter currently for the bigger ones to do EBITDA of senior guys, how they achieve it. When do you see that you can achieve it, maybe one, two, or three years, when do you see that side coming to $200 million revenue?

**Rajesh Subramaniam** So it is very simple. So let us do a crystal ball gazing and take a look at our growth profile of 10% and 15%. So, this year I have ended let us say at 505 million and if I grow at the bottom end of the range of 10%. This will get me to about $850 to $860 million in five years which will be disappointing. So, if I grow at 15% that gets me close to a billion dollars.

**Neeraj Somaiya** Because all the other guys have done that. This is a very open market for this business

**Rajesh Subramaniam** That is why I am saying, we are in the right verticals, healthcare, telecom, media, financial services, we are in the right horizontal, which is in transaction processing, customer management and global opportunity I just don't play for the India offshore fees, I address the 200 billion plus global opportunity and as I said, I am betting on healthcare and customer management business across the telecoms & media verticals as my two significant growth drivers which I hope will play till forward to the kind of strategy that we think we should be executing upon.

**Neeraj Somaiya** One question I will add, is that, the whole concern in Firstsource, in your industry itself, if one talks to all your competitors, is that, the management team is now of course, new setup, is the lack of extremely strong people in the delivery of getting business. How would you comment to it? Generally, industry everyone says on Firstsource, that it will be difficult to get businesses as they need a new management, new people and how would you add people? How would you comment or react to such a question or would you defend it? You are from a financial background, in terms of delivery and back office how would you go about, in the end that is the core of the business, how would you grow it or do you have the right people, or would you need to add more people or do you think the team is all set?

**Rajesh Subramaniam** Last year my competition went about telling people that Firstsource has got a financial risk and leverage, competition has its own views about us, but we announced in $160 million deals. I need to add people, I need to add capabilities, until last year people did not know what is going to happen to my FCCB. Today, the number of additions I have made to my key management team post December 4, is of a different magnitude, my ability to attract talent, my ability to create the brand that I was historically, it is all coming back now.

**Neeraj Somaiya** The management is aware of it and the management is addressing that.

**Rajesh Subramaniam** Absolutely. Good thing in life is that once you know the problem, you can deal with it. We know what our gaps are and we are dealing with them.

**Neeraj Somaiya** Historically, Firstsource has only one problem that past management, most of them have not realized what they were doing, so that is what I wanted to ask you.

**Rajesh Subramaniam** Absolutely Neeraj. A lot of things that we are doing, otherwise Sanjiv Goenka Group would not have acquired us. So rest be assured that we now have a very strong promoter also, that is supporting us and we are not a professional management team without our promoters. We are a professional management team with very strong backing.

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

**Dinesh Kumar** Our top client actually grew by 5% whereas our top 5 five clients are static is it related to ramp down or something or is it just a purely a seasonal cliff which happened.

**Rajesh Subramaniam** No for one client, which is one of our top 5 clients we were doing a project on PPI which was a 8-month project which was being done out of UK, which ended in December. So that is why my top client grew by 5%, but my top 5 stayed flat because that when that came to end in the end of November or early December, those revenues fell off.

**Dinesh Kumar** So, will it come back in the next quarter.

**Rajesh Subramaniam** Absolutely, the same client is now ramping back again, which has gone live now, so that same client has added, not to the extent of what the ramp down has been, but they are back on adding more resources for us to support our growth in the same capability across a different product line.

**Dinesh Kumar** How confident are you feeling compared to Q3FY12 on an outlook basis and how confident is our pipeline and all that stuff? Do you see that Nasscom's prediction of 12 to 14% for next year is reasonable for Firstsource to achieve?

**Rajesh Subramaniam** I think as we said, we have great set of customers. Our existing customers have grown significantly, our pipeline is attractive. We have a seat on a large number of deals, which are in a binary situation right now. If we get it, we will be greater than the top end of the Nasscom's projections. If we don't get some of the deals we might be at the lower end or slightly lower, so it is too early for me to predict where my growth rates will end, and in my business I don't hunt, kill and eat every quarter. Most of my businesses are annuity contract and long term contract for which I get visibility very quickly. So as I said I am on a few deals which are at a decision point over the next few months, which I will be able to give a more accurate answer in the next earnings call.

**Dinesh Kumar** What are the other available levers for us, because other expenses have reduced drastically compared to the last 4 quarters. So is there any other room for us to improve the margins from the current levels?

**Rajesh Subramaniam** My margins will expand next year. So that is a commitment I am leaving on the table. My margins will expand and we will have better operating leverages in terms of creating more variability in our cost structure. And we have clear strategies in place as to how we are going to improve margins. So, is there scope for margin improvement and are we acting on it? The answer is yes.

**Dinesh Kumar** The final question is about last quarter, you were talking about domestic business, where you were talking with a couple of clients for price increase. So what is the current situation, how do you see domestic business going forward in another one or two years?

**Rajesh Subramaniam** As I said, domestic business is a holding pattern and our conscious aim is profitable growth, if I don't get profitable growth I will not take the business. So I am assuming the business to stay flat so I can harvest some margins using operating leverage in that business. Have I got price increases? Yes, for two to three customers I have enforced price increases. Have I taken some drastic actions to improve the profitability, I have also terminated a couple of clients, where they have been bleeding cash, and we have been very happy to walk away from such clients.

**Moderator** We will take our next question from Pralay Das of Elara Capital. Please go ahead.

**Pralay Das** I had a couple of questions, the first, it is a broader based question on the healthcare segment. Specifically I was looking to know whether the conversion from ICD 9 to ICD 10 and the October deadline this particular year, translates into any significant spike in terms of healthcare revenues for you from now to that point in time?

**Rajesh Subramaniam** I think on the provider side, no, it does not have a material impact in the short term, but on the payer side, standardization have ensured that some of the adjudication volumes have shot up, which is aiding us in some of our growth. So the answer is, yes and no.

**Pralay Das** Is there a deadline for the state insurance exchanges that are going to be set up?

**Rajesh Subramaniam** I think October is the deadline which is out there at this point in time.

**Pralay Das** And you have a play in that as well.

**Rajesh Subramaniam** That is right, so we have partnerships with companies that are squarely addressing the opportunity relating to healthcare exchanges at this point in time.

Today, I will be very honest, I don't have the technical capabilities to play in that segment, but we have some very strong partnerships, exclusive partnerships that we are working on with our existing clients that we are trying to address this opportunity, so we will have to see how this will play over the next three months.

**Pralay Das** Because I assume that payers/state are actually taking system integrator approach, so we will have to essentially partner with someone.

**Rajesh Subramaniam** But you still need a very strong adjudication and claims engine after that, because the question we are coming in from the domain that we understand too much when the claim comes in right up to adjudication and our ability to reduce the cost to serve is far stronger than systems integrator. So yes, to an extent let's see. People who have both adjudication/claims flow with IT are obviously better positioned than us, but people with just plain SI capabilities compared to us I think we have definitely a better proposition than them.

**Pralay Das** And the interest for the whole year you said is $11 million a year, it's even across quarters, right, there is no extreme variability anywhere?

**Rajesh Subramaniam** No, every time I repay 11.25 million every quarter, my interest cost will obviously reduce.

**Pralay Das** On the cash flow accrual on a per quarter basis, are you looking at a broad range of numbers going forward?

**Rajesh Subramaniam** Pralay all I can tell you is I will be able to service my interest and debt repayments of $56 million with my internal cash flows without any external support.

**Moderator** Thank you. Our next question is from Srivathsan Ramachandran of Spark Capital. Please go ahead.

**Srivathsan** Just wanted to get some understanding on tax. But this FCCB repayment should have resulted in a large tax shield. So I just wanted to understand what kind of tax rates we can look for the next 12 to 18 months.

**Dinesh Jain** I think probably the tax shield is going to come on the premium on redemption of FCCB, which we have so I think the next year I think we should be at around 10% tax rate.

**Srivathsan** Okay and would most of the tax shield be exhausted by then or do you think it will carry forward to '15 also.

**Dinesh Jain** **I**t will carried forward for the next year also.

**Srivathsan** My next question is if we take a slightly longer term view on the margins, how do you see that playing or do you think we may not go back to the golden days of '07-08 kind of time frame, but the kind of numbers you are looking at, 10-11 be a stretch at this point of time over 12 to 18 months time period.

**Rajesh Subramaniam** No I think our aim is to do better than that Srivathsan. I don't want to give any specific guidance, but our aspirations are much higher than 10% to 11%.

**Srivathsan** On a constant currency basis how do you see this shaping? Because next year we will have a far better Forex realization thanks to favorable hedges. So would that aspiration be on a constant currency basis or more because of we are having far more favorable hedges that will play out?

**Rajesh Subramaniam** It is combination of both, I mean hedges are there and I have got hedges, my offshore book as you know it is 22-23% of my overall revenues, so Forex hedges will have an impact, but it is not going to have as much of an impact as we improve the core operating performance of the company.

**Srivathsan** My last question is on the domestic business. You did say that price hikes are there. Would that now take the domestic business more to EBIT kind of numbers or it is still close to breakeven.

**Rajesh Subramaniam** No the expectation is of positive EBIT.

**Moderator** Our next question is from Rishi K of India Capital Fund Research. Please go ahead.

**Rishi K** Could you please give me in terms of numbers, how much are you expecting on the margins increase for Q4 quarter.

**Rajesh Subramaniam** I don't want to give a specific number, but I can tell you that our improvements will continue. It could be anywhere between 75 to 100 basis points.

**Rishi K** Okay and what are the triggers that you think that will boost up your margins.

**Rajesh Subramaniam** I think as I said Q4 seasonally is a strong quarter for us in our collections business. So my revenue per collector goes from x to 1.3x or 1.4x in Q4. So that operating leverage gives me the benefit, as a result of which my SG&A is a percentage of revenue, depreciation as a percentage of revenue and all those things trend down. So a combination of improved revenue per collector and SG&A and depreciation leverage will ensure that I get some element of margin expansion in Q4.

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

**Rajesh Subramaniam** Yeah, thank you everybody for joining the call. It has been a gratifying quarter, still a lot of work to be done, but as I have said in the past the worst is behind us. Our path of executing both on revenue and profit growth is clear. A lot of issues around our debt overhang, shareholder issues, all those things have been resolved with very strong promoters in the RP-SG Group. And I look forward to talking to all of you in the next earnings call. Until then thank you.

**Moderator** Thank you very much, ladies and gentleman on behalf of Firstsource Solutions Ltd that concludes this conference. Thank you for joining us and you may now disconnect your lines.