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CORPORATE PARTICIPANTS:

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Firstsource Solutions Limited's Q3 FY15 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Iyer – Head of Strategy and Investor Relations. Thank you. Over to Mr. Iyer.

Ganesh Iyer: Thank you, Shyma. Welcome everyone and thank you for joining us for the Q3 ended December 31st 2014 Earnings Call for Firstsource. Please note that the results, Fact Sheet, and the Presentation has been mailed to you, you can also view the same 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 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 Q&A session. I would like to remind you that everything said on this call that reflects any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with the uncertainties and 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 report which you can find on our website. With that said, I would now turn the call over to Mr. Rajesh Subramaniam – our Managing Director and CEO.

Rajesh Subramaniam Thanks, Ganesh. Hello, everybody thanks for joining our call. Let me take you through the presentation in front of us. Our Q3 FY15 performance analysis; our operating revenue for Q3 FY15 came in at Rs.751 crores compared to Rs.799.8 crores in Q3 FY14 and Rs.774 crores in Q2 FY15. The Q-o-Q de-growth is 3% in rupee terms and 1.8% in constant currency terms. The biggest impact has been the movement of the GBP from Rs 100 levels to the current levels of Rs 94 - 95, which has had an impact on revenues, and subsequently, the marginal impact on profitability. Y-o-Y de-growth has been 6.1% in rupee terms and 5.9% in constant currency terms. From an operating EBIT perspective, our Q3 FY15 operating EBIT came in at Rs.74.6 crores compared to Rs.74.2 crores in the same time last year and Rs.77.1 crores in Q2 FY15, the de-growth of 3.3% Q-o-Q while the margin percentages remain flat; Y-o-Y growth of 0.6% and the margin expansion of 60 basis points from 9.3% to 9.9%. Profit after tax came in at Rs.57.5 crores for the quarter compared to Rs.48.3 crores in the same time last year and Rs.61.2 crores in Q2 FY15. The Q-o-Q de-growth of 6.1% in rupee terms and margin contraction by 20 basis points from 7.9% to 7.7%; Y-o-Y growth of 19% with the margin expansion of 170 basis from 6% to 7.7%.

For the 9 month period, between April and December, our revenues came in at Rs.2,280.6 crores compared to Rs.2,309.7 crores; Y-o-Y de-growth of 1.3% in rupee terms and 5% in constant currency. Operating EBIT came in at Rs.227.3 crores compared to Rs.205.6 crores; Y-o-Y growth of 10.5% and a margin expansion of 110 basis points from 8.9% to 10%. Reflecting on the margin expansion story, profit after tax came in at Rs.172 crores for 9 months compared to Rs.134.1 crores same period last year; Y-o-Y growth of 28.3% and a margin expansion of 170 basis points from 5.8% to 7.5%.

The other highlights, cash and debt position: Cash and cash equivalents of Rs.140 crores as of December 31st 2014 compared to Rs.184.3 crores in the previous quarter. We repaid our seventh principal installment of $11.25 million on the 31st of December. There was also a CAPEX spend in Q3 FY15 of Rs.6.4 crores towards supporting expansion of our business in North America for a large Telecom client. Net long-term debt as on December 31st 2014 is $98 million setting as up well to get to closer to that 1:1 debt-EBITDA that we spoke about towards the end of the fiscal. On the cash and cash equivalents, the numbers would have been higher. One of the clients that cease to exist, the operations were cut over in the first week of December, and the receivables from the client exceeds Rs.65 crores. So, the absence of the cash builds up between Q2 FY15 and Q3 FY15 would be seen in the increase in DSO, which has actually increased from 62 days to 68 days largely on account of this one client. 50% of the outstanding has been collected and the balance will be paid to Firstsource in the ensuing days. So, nothing to worry about why the cash balance has come in lower.

From an FX hedge perspective, outstanding FX hedge is at $41 million for USD and £62 million for GBP, and for the next 12 months, 90% of the dollar has been covered at Rs 66.4 and 90% of the pound has been covered at Rs 107.4, and the cross reference between the pound and the Philippine Peso 17% coverage at 73.1. The next 12 to 24 months, the USD has been covered to the extent of 52% at Rs 69.1 and about 69% for the pound at Rs 113.3.

The other highlights are on employee seat and utilization and attrition: We had 26,621 employees as on December 31st 2014 and a seat capacity of 23,698. 47 delivery centers, same as Q2 FY15. 17,574 employees in India and 9,047 employees placed outside of India, a net reduction of 302 employees. The actual reduction was 800 employees from the Telecom client which ceased to exist as the customer on December, and there has been growth in our existing banking and telecom customers which have pulled back some of the reduction that we saw in the Telecom client, the growth of which is expected to continue in Q4 FY15. The seat-fill factor at 71.7% as on Q3 FY15 compared to 73.1% on Q2 FY15 largely on account of the capitalization of the centers for the large Telco in the US which is building towards optimum capacity in Q4 FY15. Attrition has reduced by about 250 basis points in India and Philippines - 47.1% compared to 49.6% in Q2 FY15; onshore US and Europe - 37.4% compared to 43.6% in Q2 FY15; India and Sri Lanka - 80.6% compared to 85.7% in Q2 of FY15.

I would just spend some time on our financial highlights: From a revenue by geography perspective, 49% from North America, UK stable at 36%, and India and rest of the world reduced from 17% to 16%. From a revenue by delivery location, 67% onshore, 24% offshore and 8% domestic. From a revenue by vertical perspective, Healthcare constituted 36%, Telecoms and Media 44%, and BFSI 20%. Revenue by client concentration, our top client was 24% and top 5 clients 44%.

If I take a look at the number illustration on our financial performance, most of these key highlights have been discussed in the earlier preamble. The key call outs would be the margin expansion, both Y-o-Y and Q-o-Q on operating EBITDA. Q3 despite being seasonally our weakest quarter, we managed to expand EBITDA by 20 basis points despite an adverse currency environment on consolidation, where we lost almost Rs.16 crores in revenues because of a large pound book that we run in the UK, when consolidated from 100 levels to lower levels in Q3 and expected in Q4 FY15, did see a reduction in revenues and proportionately 10% to 12% impact contribution on profits at the marginal level. Despite this, our margins have expanded. Our operating EBIT we spoke about has also expanded Y-o-Y by about 70 basis points and our profit after tax at Rs.57.5 crores represents a 19.1% growth Y-o-Y setting us up well for Q4 FY15 which is expected to be the growth quarter that we will demonstrate on the backs of all the wins that we have demonstrated.

From a 9-month perspective, same colors, operating EBITDA improving by 90 basis points from Rs.263.2 crores to Rs.281.5 crores, profit before tax at just under Rs.180 crores from Rs.143 crores, margin expansion of 170 basis points and profit after tax of Rs.172 crores setting us up well to demonstrate higher level of profitability and revenue growth that we would witness in Q4 FY15 on account of the business that we have signed up and on account of the seasonality elements that give us a positive momentum in Q4 FY15.

From a Business Outlook perspective, the demand environment continues to be robust; there was strong pipeline build-up across Healthcare and Customer Management. The new product development in the Healthcare Provider segment, the pipeline has built up pretty much from under $5 million to over $16 million, a very heartening trend in terms of customers willing to engage in the new ideas that we are placing on the table. Customer management on the back of the deals that we signed up and the deals we are signing right now with the greater impetus in the Healthcare Payer segment, overall, the pipeline has improved pretty well, and we expect it to continue demonstrate similar behaviors in this quarter and beyond. Q4, as I mentioned, being sequentially our strongest quarter due to seasonality in Collection business and realization of revenues from earlier quarters.

FY15 has been a mixed bag for us to be very honest. We did sign up deals in the early part of the year which got delayed from an implementation perspective, which we expect to see the light in Q1 of next year based on commitments that we have seen from customers. There have also been delays in the go-lives of some of our projects that we won in North America, largely driven by procurement-related issues and deployment, and I would be disingenuous if I said, we did not have operational challenges in the early periods of ramp-up, the early periods of ramp-up did see certain assumptions around recruitment and appropriate yields on productivity not matching up to our expectations. So, in Q3 FY15, we did leave some revenue on the table, which I expect we will claw back based on the remediation steps we have undertaken, and restore us back to where I believe our revenues will kick in from the scale that we had set up from the contract wins.

The full quarter impact of loss of our Irish Telecom will be reflected in Q4 FY15, as almost $8 to $9 million and despite the loss and based on the growth that we have signed up, we definitely expect to see on a constant currency term basis, a growth of about 4%, and with some luck it could be at 4.5%. But at this point on a constant currency basis, 4% is the number which I think we are very confident as a team. Taking off from Q4 FY15, we currently have visibility of 7% to 8%, I am holding on to this number from a growth perspective but it does have an upward bias. Year-to-date, the total annual contract value of our wins is $89 million, and if I back out the losses that we have seen on account of the Irish Telecom client and some of the prior period volume ramp-downs which we are playing out and also take cognizance of the fact that the contract wins will have a certain productivity cycle to get to full level of revenue contribution, I think it is a good place to be in to commit to a 7% to 8% growth at this point in time with an upward bias. In Q3, the deal wins have been tepid because decision-making cycles normally get down much-much earlier before the close of the quarter due to holiday season, but Q4, we have seen the early signs of conversions, I will be happy to share these at the appropriate time.

Going forward, our margins will continue to expand. As I said, our margins will expand by about 100 to 150 basis points, I think, we will demonstrate 100 to 120 basis points for the full fiscal. I expect on the back of growth and the operating leverages we have, the margins story to continue to play out in FY16. We are expecting another 100 to 150 basis points improvement, seems reasonable, which should be growth-driven assuming risk bearable on our Domestic business. So, as I said, we are in a good place, Q4 is going to be the first quarter that we will actually demonstrate robust growth, which will set us up for FY16 and the growth rate for next year are not predicated on a big element of signed it blue sky business but based on how the deal wins that we have had will convert into revenues. There will be implementation challenges, there will be volume expansion and volume compression, it is a part of life, but I think, this year where we have had significant disappointments in terms of signed contracts playing out to revenue will definitely play themselves out.

Debt repayments, we will continue as per plan, and as I said, we will be at a debt-EBITDA of 1 or less than 1 or somewhere in that vicinity for FY15 and with the improvement in cash flows, I think we would be far ahead of plan in terms of our ability to repay our debt next year and beyond.

Having said that, I will conclude my summary and hand it over back to the moderator to open the floor for questions.

Moderator Thank you, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira A very strong outlook for FY16 and given the fact that we are yet in the commencement of FY15, I just wanted to understand what are the two or three drivers both in Healthcare and Customer interaction which gives this visibility and when you are saying with an upward bias, do we see this materially higher than 8% which is on the higher end? Secondly, on the commentary on the margin side, you are saying about expansion of 100 to 150 basis points. Would this is be largely due to revenues or do you think it is also due to the platform-based offerings which we are putting across in the market? And third, the last question to Dinesh, if you could just help us on the tax rate for FY16 and FY15 actually?

Rajesh Subramaniam Great questions, Priya, let me take your first two questions. The momentum we are seeing in the Healthcare industry are significant on the Payer side, two reasons - one, with the Healthcare Enrollments which have happened, there is a significant uptick in the volume of business across all that Payers who are working in given new policies which the big boys have been able to sell, leveraging all the principles of the number of Enrollments that has come in. Now, the second element is, both these increased Enrollments which will be in approximately 6 to 7 million Americans every year in the last 2 years into the net, there is no significant expansion of the entire customer service policy administration maintenance and the entire Enrollment support on the Customer Management side which we have seen uptick in one client has demonstrated significant scale and the second one, which is a part of our largest client base in the Payer world has started a pilot which will expect to scale. So, to that extent, the whole Healthcare Enrollment has thrown open significant opportunity both on the Claim side and as well as on the Customer Management supporting the Enrollment. Now, on the Provider side, the sales cycle are slightly longer given the fact that it is a much more fragmented market, but the impetus that we are seeing in hospital CIOs and CFOs that are willing to embrace technologies that will simplify the entire Enrollment screening process leading right up to denial management when a claim is submitted by the patient or by the provider helping the patient work with the Payers, I think we are seeing momentum. We have now stitched up two white label partnerships, both on the front end and the on the back end of such patient access technologies. White Label partnership where we will be launching in the market and in the pipeline build-up of 16 million that I gave you was on the back of these developments, and never in the history of this Healthcare Provider platform have we seen a buildup of a pipeline to the extent, the magnitude which have laid out in the past, which generally gives the sense of excitement that these opportunities are real and we expect the first few hits to start translating in from the latter part of Q1 early part of Q2, and it is basically leveraging the pipe of customers we have, 700 plus hospitals and basically given the engagement and the long standing relationships we have in both the eligibility and the visible cycle management businesses extending it to the front end and extending it right up to the billing function which then leads to either collectability or denial is now a full swing, end-to-end revenue cycle management proposition which we are working with, the relationships where we have the longest tenure. Then the question is how we go into logos where we have either had relationships in the past, which should be our next set of customers to target, and then go up to new customers in different regions where we have not had a footprint. So, that will answer both your platform-based proposition as well as what is happening in Healthcare. In the Customer Management side, apart from the evident growth in the Telco customers that we have signed up, which likely will be $43 to $45 million business next year, I think we are seeing significant momentum around reshaping digital strategy for both our Media client and Banking clients in the UK. I think the UK market is at least in our experience from the customer experience perspective, slightly ahead of the adoption than the North American market, at least given our largest footprint is UK, I think it is easier for me to make that statement, and I think a combination of the arrowheads that we developed and deployed is going to drive revenues, but I can tell you that the profit growth will be non-linear to revenue growth because the expectation is driving a higher level of sales, but not necessarily with a higher number of people. So, lot of the engagement models are now necessitating us to put in skin in the game, where the proportion of rewards based on outcomes is, now the needle is shifting to a larger degree, and unlike prior engagements where it is only based on input measure, I think the shift we are clearly seeing in the UK market. But, as I said, our pipeline is robust, the deal flow is phenomenon, but I am also caution that a lot of customers have ideas they want to get to a certain place but not necessarily know how to get there. They have some priors in terms of how they believe it should get down; a lot of it sometimes does not play out. So, it is a process of discovery, but all I can say is that the directions of where these opportunities will end at same time next year will be far more significant than where we are. There will be execution challenges, but I am pretty confident that coupled with the growth in the UK markets, which is pretty robust, and what is happening to the economic environment, it is a great feeling that the pipeline is building up, but it is a little frustrating that decision cycles are getting delayed, but overall the momentum is positive. At this point in time, Priya, I would like to hold on to our 8% growth, that is what I mentioned last year, but delays in decision-making have affected us. At the sound of not losing credibility again, I just want to lay out that 8% with an upward bias is something we can definitely underwrite and these numbers can change as the ensuing quarters play out. But at this point in time, that is the number I am comfortable with and the margin expansion combination of quality of revenues from platform-based services plus this leveraging our fixed cost based bid infrastructure or people investments we have made through translating the operating leverages to margin expansion going forward in FY16.

Priya Rohira Just one data point I need, last quarter we have a pipeline of around $45 million. Now, the $16 million is purely in Healthcare. If I can get a like-to-like number of $45 million?

Rajesh Subramaniam We will come back to you on details.

Priya Rohira Just last data point which I had on the tax rate, what is the number we should work at?

Dinesh Jain Priya the tax rate will remain in the range of 4% to 5% for the current year, and the next year, I think it is going to be between 9% to 10%.

Moderator Thank you. Our next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran Hi Rajesh, just wanted to get your comments on a couple of specific areas; one is in terms of the funnel building up that we are seeing, bow is BFSI shaping up that seem pretty soft especially in the US market? Second is on the Payer side, there have been a pretty good growth we have seen. Is it possible to kind of sustain this momentum in FY16 also?

Rajesh Subramaniam I think BFSI, Srivatsan honestly, right now funnel building is in the UK market, US market, our BFSI exposure is in our Collections world, and there our expectation is at 7% to 8% growth in that business next year. Again, we can have positive surprises if the liquidation rates improve or the inventory of debt improves based on the spending patterns, it is too early for us to comment, but based on what we have seen, the current inventory of debt and what we believe will continue into next year based on the guidance we have from customers. So, we do not have a story in the Customer Management space for BFSI clients in North America. I think that is the space we have never succeeded at historically and I would like to reiterate that right now our sales efforts are bullet focused on Payer side building on the relationships we have in the Payer customers and selling Customer Management which then leads in to your second question that "Can this growth rate be replicated?" I think there will be positive surprises to the growth rate we have seen in FY15 in the Payer business going into FY16 beyond what we have seen in FY15.

Srivatsan Ramachandran GBP was depreciating pretty sharply and now we have seen a reverse movement, just wanted to understand in terms of pricing, how do you look at pricing especially in UK market for new contracts or renewals that you are seeing given you have seen almost 10% appreciation in GBP?

Rajesh Subramaniam Excellent question, Srivatsan. I think our pricing calculator last year our covers were at Rs 100 plus, our pricing has been at Rs.95 to the pound and Rs.60 to the dollars. So, that is the pricing calculator that we use. And I think with the pound depreciating where it is right now, holding the same pricing calculator because of some of the forward covers that we would get on long-term contracts is a lock-in that we are evaluating. But, I think the key to watch out for is the elections in the UK and if it is the expectation of our independence that we have and the consensus in UK is that if there is government continuity, given the fact that the growth in the UK market is pretty robust, I think we could see the pound strengthen against the rupee. Coming back to linking it back to customer contracts on the renewal side, at least for the largest customer that we have, we are clearly seeing a shift in a gain share model beyond the base rate, I think it is less focused on the pound as much as is focused on productivity to put some margin at risk which can be recouped based on gain share method either linked to improvement in net promoters score, reduction in churn or increasing sales either through inbound sales or through outbound for certain product lines. I think from a margin perspective we are not going to be adversely affected because the offshore book based on the current book we have coverages at obviously significant higher rates of the pound. So even if new business comes in at 5% or 6% premium to spot I think we should be in a reasonably better position than being where the spot rates have been.

Srivatsan Ramachandran: My last question, if you have to look at margins, just wanted to understand, broadly what proportion or what extent do you think the favorable Hedge-book would drive margin expansion, how much of it would be more revenue growth, mix, and operations led?

Rajesh Subramaniam: There are two portions which will be excluding the covers - one is the growth will improve my fill factor, so that will see improvements in my gross margins based on the sum cost I have. The second element is the quality of earnings based on the arrowheads deployed in the Healthcare segment will come in at a higher margin to the mean. Third element would be the contribution of Forex, the Forex contribution is just on the offshore book, which in relation to the fact that 70% of our revenues is onshore, 10% domestic and 23% to 24% offshore, the impact because of the covered books is a component, but it is not going to be as material as the first two I spoke about.

Moderator: Thank you. Our next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Just trying to understand, firstly, in terms of the sequential decline in revenues from your top customer, I understand that some of it would also be a function of the way currency has moved in recent times, I am just trying to understand what is the outlook on business within the top customers because some part of the business impacted by currency movement**.** My second question was with regards to we are almost half way through Q4FY15. If you could give us some sense on how the ramp ups on some of the deals that got pushed out doing now?

Rajesh Subramaniam: So let me take the first question, you are right, in Q3 FY15, it is the pound, the Rs 100 to the Rs 94 - 95 movement which is explaining why the top customer fell by 1 percentage point, but at this point in time I will also tell you that the top customer is making significant investments across geographies in Europe, they also have significant investments outlays coming out based on some of the renewals coming up in their own market segments of the programs that they broadcast. So there is an estate redesign which is being looked at actively, and as a part of the contracting principles there will be a pressure on top line, so I do see the top customers on a ceteris paribus will reduce next quarter, but also the fact that a customer which we have signed up, which will scale, so a combination of other customers growing and some plateauing of the existing business will be evident, but overall we are in a very good place with our top customers, we have been identified as one of the two strategic partners that we will work with them, and our success will be predicated squarely by their own strength and growth in the market they have operated in, and that has clearly been demonstrated over the last three to four years, and even the recent report suggests that they had the strongest net customer adds compared to any of the other Telco or forged like companies, and they have now forged recent partnerships with other large Telco's to start streaming content across mobile channels, all of which is not factored for. So while there are short term plateaus and short term reductions that we see, overall betting on the strength of the customer and what they do in their market I think we are in a good place. And now to your second question on how it is playing out, for the telco client I spoke about, post-Christmas, January, February, the volumes are lower, at least 10% to 15% lower than Q3, in Q3 a part of the operational issues that we had, we did not handle as much as we should have. So we lost some revenues because of the issues on yield and productivity management that I spoke about which is the first three months of ramp, but now the operational challenges have been sorted out. So the volume scale back is expected in March, April, May, June months where we see a spike in volumes, I think we are positioned very well to get the numbers back on where we forecasted when we won the deal. Similarly, in Healthcare, Customer Management, we are clearly seeing the growth happening in the Payer segments, supporting the Enrollments. NPD as I said will take time to play out, but for me to demonstrate the 4% growth after absorbing the $8 to $9 million loss of the Irish Telecom company which separated with us in December, is something I am confident about at this point.

Manik Taneja: The second question was more of a book-keeping question, if you could give us some sense on the breakup of the forex deal value you might have booked in the other operating income in the current quarter, and if current exchange rates were to stay where they are, what kind of hedging yields can we expect to book in FY16?

Dinesh Jain: So FY16 if you see the press release, we talked about what rate the forwards have been booked, which we have disclosed, so my current forward book which is for FY16 is better than FY15 books.

Manik Taneja: And what would be the quantum of the forex gain that you might have booked in the current quarter?

Dinesh Jain: Current quarter, the other operating we talked about Rs.10 - 11 crores which is part of this.

Manik Taneja: Out of that Rs.137 million of other operating income could be about Rs.10 - 11 crores of forex gains?

Dinesh Jain: That is right.

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

Ankit Pande: My question would be first of all in Healthcare, which I think we recorded only flat quarter, so what is the situation there this quarter, these quarter disappoint from expectations especially since not only was it a good season for Healthcare Enrollment but also on the Provider side, we signed up a large client, so wondering what the quarter was for you there, especially compared to your expectations?

Rajesh Subramaniam: Great question, I think in the Healthcare side, the Payer segment positively revenue momentum was pretty strong. On the Provider side, we did have certain setbacks largely on account of the holiday season and some of the inclement weather that affected some of our centers where we did lose some production days, so between thanks giving and production days we did have certain setbacks, but the bigger issue that affected us in the Provider business was some of the claims which were submitted to the hospital network, and then subsequently to the Payer network some of those got clogged because of reasons that the priority was given to the Enrollments from the HIE and not from the Medicaid channel, but all those have been resolved, the bounce back in January is clear, and it is a temporary phenomenon where the inventory which was clogged up and was not releasing into revenues, has now subsequently been released and we see the bounce back in Q4 FY15.

Ankit Pande: Does that an execution sort of setback, does that lead to any kind of penalty from customers or those kinds of things or they are generally taken in the stride of execution?

Rajesh Subramaniam: No, I would fault less, because the effort involved was provided, so if there were execution challenges I would have variabilized my cost structures in relation to the loss of revenues, but the answer was more that the hospital network especially in the Medicaid flush states of Kentucky, Tennessee and Alabama, we definitely saw that the hospital networks did not respond to the urgency at which the claims should have actually been billed to the Payer and then whatever was billed and worked to the Payer, Medicaid was given second preference over the HIE segment. So a combination of both has affected us. You will always have challenges on the operation floor but I think they were more significant last year than they are this year. So my sense is the proof of the pudding was the bounce back that we saw in January, and all I can say is that whatever we lost in Q3 FY15, will be made up in Q4 FY15.

Ankit Pande: Especially when it comes to your top customer performance, do you think that lived up to expectations this particular quarter with a flat sequential quarter, you did mention that the explanation plans, did you allude to a kind of vendor consolidation exercise, is that correct?

Rajesh Subramaniam: No, vendor consolidation exercise happened three years ago, right now, our largest clients works, they have their captive and then they have two other partners, and the captive is roughly 40% and the rest was 60% majority. From headcount perspective it is with us, and a smaller portion with our competition, but competition from revenue terms, we are largely equal, because all they have got are onshore. So there is no vendor consolidation play at this point in time, but three to four years down the line, let us see how their business plays out in terms of some of their current licenses that they have, and if the business continues to grow as it has in the past, I think they will maintain a two-vendor strategy, and the only imperative for them is given the significant investments they have made in other parts of Europe, and some of the investments they will continue to make in the UK, I think there will be a pressure in their entire margin profile that they need to maintain to continue their investments, and I think some of that pressure will be seen downstream but the good thing is I would expect that to be compensated by growth in the long-term.

Ankit Pande: Just a metrics, if you could give me a total pipeline, that number stood at $373 million last quarter?

Rajesh Subramaniam: It is about $415 million this quarter.

Moderator: Thank you. Our next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: I just want to understand the Rs.65 crores amount what you suggested, which we have yet not collected from the customer, which is to be the client from December onwards. If you can help us, by when we expect that to be recovered and any more color if you can add on? Second question, is it possible for us to give some kind of currency mix, how much revenue we will get into which currency kind of thing? And last is about top client related only. We signed I think deal three years back, at that time we suggested deal would be around three years. So any update on that? And related recent news flow about one of the development centers, if you can provide some clarification on that.

Dinesh Jain: Out of the Rs. 65 crores to be collected from the customer, we already collected 70% of the value and 30% has been already received the confirmation of the dates when they are going to pay, so by March 7th or 8th we will be able to collect all of the amount.

Rajesh Subramaniam: On our large client, I think the contract renewal, the expectation would be for three years, and our commercial construct would be for three year renewal and a five year renewal, so let us see, I think internally their philosophy would be for a three year renewal. And in relation to the Derry incident that is now largely behind us. I think it was more to do with certain training nuances rather than any malafide misrepresentation of the facts, I think we are beyond that, wherever we have found instances where there has been mis-selling, based on malafide we have intervened, but that is a very small population, and fundamentally the reason for this incident is a lot of the selling has got incentives aligned to it, and coming closer to the Christmas season, wrong practices could creep in, majority of that got picked up by our QA, but wherever there were exceptions, which did not get picked up, we went through a detailed investigation process, found that 80% to 85% of the population that was under this, is more linked to a training issue and understanding the process required to engage with the customer, but the instances where we found malafide intent, we are taking appropriate disciplinary action and setting it up for the next course of action.

Dipesh Mehta: About currency mix and about top client renewal, by when are you expecting some kind of contract signing to happen?

Rajesh Subramaniam: By June this year.

Dipesh Mehta: And if possible, can you say currency mix?

Dinesh Jain: I think currency mix is between the GBP-USD and the Euro, there are three currency mixes on the onshore businesses, and I think mainly the GBP, I will say 60% of the book and the balance between the Euro and the Dollar.

Dipesh Mehta: So 60% when we suggest, what base I should take of that book?

Dinesh Jain: The base is quarter revenue.

Dipesh Mehta: So 60% of our revenue would be in GBP, those kinds of things you are saying?

Dinesh Jain: Yes.

Moderator: Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: I have two questions: One is on the fourth quarter outlook, are you also suggesting that our margins could be closer to what we did in terms of last year same quarter? And the second on delay in ramp up now. I think this is the second quarter we are seeing delay in ramp ups. Are these sort of already on their way or is there some anticipation that it may come back beginning of the next year?

Rajesh Subramaniam: Excellent question. I think on the margin question, absolutely, I think we are targeting a margin of about 13.5% EBITDA for Q4 FY15, which I believe is tenable aided by Collection seasonality, but also because of the growth in revenue that we have seen in Q4. The delays, to be very honest, we have signed up significant growth for regulatory-driven changes in the banking industry of a client in the UK so that growth has been signed up and will play itself out, but as relation to the growth in Philippines, again, we have in-principle approvals that gives us the path as to where it will go, but I am not laying it on the table, because until I see the change ordered to get us into the hiring and training mode, I would still expect to see that beyond Q1 of next year given the priorities are to deal with some of the immediate requirements we have on show. So I think, as I said, the worst, we took the biggest impact of this in FY15, FY16 we are in a much better place on certainty based on the guidance that we have got from our stakeholders, and the other set back as I said later part of Q2 and most importantly in Q3 was the operational challenges in the telco customer management DD1 in the US, and that has been resolved, and the fact that January and February are lower volume months is actually helped in stabilizing the operations, and I think we are geared well from March and beyond to scale up based on how we see the volume forecast that have been provided by the customers. So, yes, in a nutshell I think the worst is behind us, and we are reasonably confident, and on the Q4 FY15 EBITDA margins I did give you a projection on.

Mohit Jain: Is there any one-off in the other income for this quarter?

Dinesh Jain: Normal income, there is nothing special in that.

Moderator: Thank you. The next question is from the line of Abhishek from ICICI Direct, please go ahead.

Abhishek: Sir, could you help us reconcile the segmental EBIT margin profile on a Y-o-Y basis as well as a Q-o-Q basis?

Rajesh Subramaniam: Can we do this offline, Abhishek? Ganesh and Dinesh will work with you on this.

Abhishek: Could you also add qualitative comments as to why despite the revenues especially in India being almost stable at around Rs.66 crores, the margin profile has dropped from around 20% to 9%?

Rajesh Subramaniam: I think that was largely because the statutory bonus payouts were not provided for and I think that is the one-time hit we have taken in Q3 FY15.

Moderator: Thank you. Our next question is from the line of Ajit Singhal from Nomura. Please go ahead.

Ajit Singhal: Just a few clarifications I wanted; firstly on the employees, if I were to exclude the employee reduction due to the lost customers, were there 500 employees added in this quarter?

Rajesh Subramaniam: That is right, apart from the 800 we also rationalized some in India, a combination of what there was an offset of the growth in US telco, where the addition has been significant, plus we have seen growth in our banking business in the UK.

Ajit Singhal: Another clarification was on the revenues, if I understand correctly, you are maintaining 4% sequential growth in Q4 and that is after the impact of $8 to $9 million of the lost customer, right?

Rajesh Subramaniam: That is right.

Moderator: Thank you. We have the next question from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: A couple of questions: One is on the bonus provisions. If you could clarify when you say that these were statutorily due, but not provided for earlier, what exactly do you mean? Second is on the BFSI. We have seen a pretty steep decline Y-o-Y, and even Q-o-Q there is some decline. Is that mostly due to currency about a million and a half is what we see in dollar terms, so if you could explain that?

Rajesh Subramaniam: In our Domestic business, most of our employees are on minimum wages and the one-month statutory bonus, the 8.33% which is supposed to be provided for, there were various interpretations as to how this would get accounted for based on the lifecycle of the employees, because if you are running attrition rates of 80% to 90%, when employees come in, based on their tenure, the pro rata of the bonus be expected to be a lower number, but given the fact that attrition rate which were in excess of 100% plus last year has now been close to 80%, there have been certain impacts of higher provisioning that is required, plus there was a methodology which was incorrect, where there was an assumption of some of the statutory reductions which we could have taken out and then calculated the bonus, which were not so, we got our opinion and just to be absolutely clear, the entire provisioning that we made for the domestic business where most of my employees are on minimum wages is the fact where we see the impact which affected us in October and November, and next year onwards we will take a more conservative approach and we will spread it out through the year so that we do not see a blip in Q3. On the second question, BFSI, like we mentioned last year, as I had also mentioned, some of the earlier ramp down especially in one of our card customer in the US, where it has come back, the ramp down, the total estate was 2x, the ramp down is 1.2x, but the climb back would be another 0.3x, so net-net we would lose about 60% and we will hold back about 40% of the employees based on the expectation that the customer is not able to manage it in their captives. So the BFSI segment specifically points out to that one customer of UK origin that we operate in North America.

Moderator: Thank you. We have the next follow-up question from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: The deal pipeline, on the healthcare you mentioned that $5 million has gone to $16 million, last quarter you had entailed a pipeline of around $45 million, just wanted to know how does it stand at the end of Q3 actually.

Rajesh Subramaniam: Priya, the last quarter that $45 million was a deal win, the pipeline was $370 million, and right now we are saying that pipeline includes about $415 million and a significant portion of the incremental coming in the Healthcare space.

Priya Rohira: The way it works is, the pipeline was $370 million and then $415 million is what it has improved to?

Rajesh Subramaniam: Correct.

Moderator: Thank you. We have the next follow-up question from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: Just once more on the US Collection side, what exactly do you see there qualitatively, I just wonder if I missed something, but what exactly are the liquidation rates to pick up and how do you see that business going forward, has your outlook changed a little bit?

Rajesh Subramaniam: Outlook has changed and where we had put the shackles on growth because we did not want to make investments given the economic environment, but we are seeing inventory levels increasing, our existing customers are scaling up, liquidation rates have improved. So for the same effort I should be in a much better place driving a better level of margin in the Collections business, now with the inventory growth if it is higher than what we currently see, then the ability for us to convert that at higher liquidation rates will involve certain investments in building the work force and right now at least the macroeconomic environment completely gives us a picture which is a lot more clearer and a lot more healthier than what we have seen in the last two years, but again I just want to be very careful of the representations I make here, but in FY15 itself the business has seen a significant turnaround, profitability has improved almost three-folds for the same level of revenues.

Ankit Pande: I was wondering if you could also give me a bit of outlook on the CAPEX side, in these 9 months we have totaled about Rs.16.6 crores, so if you could give me the total number for this year expected and maybe the next year as well.

Dinesh Jain: We will put another million, million and a half in the current year, and I think current year also our investment is between $ 8 to10 million, but as we use the finance and operating leases the cash flow which is utilized is very low, the same trend will continue for next year, we will have another investment between $ 8 to 10 million but I think the company's cash flow usually will be between $ 3 to 4 million, it is not going to be material number, it will be more operating leases and the finance leases which we comply.

Moderator: Thank you. We will take the last question from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: I have just one question about other operating income side. We generally take grant income also as a part of the thing. So what would be that number in 9 months financial?

Dinesh Jain: I think we have to check that out for 9 months number, we will come back to you with the exact number.

Dipesh Mehta: In this quarter there is no abnormal grant income what we might have booked?

Dinesh Jain: No, there will be a small grant income, because it is booked monthly basis on the grant which we utilized, so there is always a number in there, other operations.

Dipesh Mehta: Nothing exceptional related?

Dinesh Jain: It is never going to be exceptional till the time we will have a big set up we do, or big employees hire we take in the UK market essentially.

Moderator: Thank you. I now hand the floor back to Mr. Rajesh Subramaniam for closing comments. Thank you. And over to you, Sir.

Rajesh Subramaniam: Thank you, everybody, thanks for taking your time and joining this call. As I said FY15 will end up to be a mixed bag year, but sets us up well for FY16, I think the credible growth that we will see in Q4 FY15 will set us up for FY16, and I look forward to speaking, meeting with a lot of the participants over the course of the next few days or weeks and explain our story where nuances that might have been missed out can be explained in greater depth. So thanks for your time today and look forward to meeting, talking to you. Cheers!

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