Q2 FY2017 Earnings Call Transcript – October 27, 2016

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 Q2 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only modes. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Iyer – Head, Strategy and Investor Relation from Firstsource Solutions Limited. Thank you and over to you, sir.

Ganesh Iyer: Thank you, Zaid. Welcome, everyone. And thank you for joining us for the Q2 FY17 Earnings Call. Please note that the results, fact sheet and the presentation have been emailed to you and you can also find 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 – MD and CEO and Mr. Dinesh Jain, our CFO. We shall 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 that is said on this call that reflects any outlook for the future or which can be construe as a forward-looking statement must be viewed in conjunction with uncertainties and the risks that we face. These uncertainties and risks are not included but not limited to what we have mentioned in prospectus filed with SEBI, and the subsequent annual report that we have on our website.

With that said, I now hand over the call to Mr. Rajesh Subramaniam, our MD and CEO.

Rajesh Subramaniam: Thanks, Ganesh. Good morning, good afternoon everybody. Thanks for your time for joining the call today. I will take you through the Q2 and H1 highlights and will give you a little color on the environment and Firstsource's position looking out at future opportunities.

From an operating revenue perspective – Q2 FY17 revenues came in at Rs 884.4 crores as compared to Rs 893.5 crores in Q1 FY17 and Rs 787.8 crores in Q2 FY16. This demonstrates a year-on-year growth of 12.3% in rupee terms and a 14% growth in constant currency terms; quarter-on-quarter it's a de-growth of 1% in rupee terms and a growth of 1.2% in constant currency terms. Just to give you a little bit of color, if the Q2 revenues had come in at the Q1 rates, our revenues would have been closer to about Rs. 907.5 crores compared to the Rs. 884.4 crores that we have reported.

Operating EBIT – Q2 FY17 operating EBIT came in at Rs 96.5 crores compared to Rs 102.9 crores in Q1 FY17 and Rs 75.2 crores in Q2 FY16. Year-on-year growth is 28.3% with a margin expansion of 137 basis points from 9.55% to 10.92%; quarter-on-quarter de-growth of 6.2% while margin contracted by 60 basis points from 11.52% to 10.92%. Similarly, if Q2 rates were aligned with the Q1 rates, especially on the Pound, our profits would have been higher by about Rs. 4.5 crores in the quarter and sequential de-growth would have been far more muted.

At the profit after tax level, Q2 FY17 PAT came in at Rs 71.3 crores compared to Rs 73.4 crores in Q1 FY17 and Rs 58.7 crores in Q2 FY16, a year-on-year growth of 21.5%, margin expansion of 61 basis points from 7.45% to 8.06%. Q-o-Q de-growth of 2.9%, margin contraction of 15 basis points from 8.21% to 8.06%. So, aligning the same Rs. 4.5 crores principle to the bottom-line our QoQ would have grown by about 1.5% compared to de-growth, we are seeing on a QoQ basis.

To talk to you a little bit about our H1 highlights: Our operating revenues came in at Rs. 1,777.9 crores compared to Rs. 1,529.2 crores in the same period last year. Year-on-year growth in rupee terms is 16.3% and 15.2% in constant currency terms. Our H1 FY17 operating EBIT was at Rs. 199.5 crores compared to Rs. 142.2 crores in H1FY16, 40.3% growth year-on-year and margin expansion of 192 basis points from 9.30% to 11.22%. Our Profit after tax was at Rs. 144.6 crores compared to Rs. 111.5 crores in H1FY16, this is despite a higher tax outlay that we witnessed in the first half where at some point Dinesh will explain some of the measures we have taken to reduce the impact at least in Q4, year-on-year growth of almost 30% and margin expansion of 84 basis points from 7.29% to 8.13%. Basically, what the H1 profile tells us that we definitely will be able to move our guidance that we had laid out both on growth and margins that we have set up in earlier calls.

Some other highlights:

Employee strength, seat capacity and utilization - 24,910 employees as of September 30th, 2016; Seat capacity of 22,797. 15,100 employees in India and 9,810 based outside India. We added 762 net in Q2 FY17. Delivery centers, one delivery center addition on the back of the growth that we are seeing across multiple businesses in North America. Seat fill factor at 72.1% compared to 71.8%, giving us a little more tailwinds on the margin expansion. Attrition offshore was robust compared to the previous quarter, 43.7% compared to 50.1%. Onshore largely flat, 49.9% compared to 49.3% and the domestic business, the business we have in Sri Lanka showed an improvement of almost 500 basis points coming in at 71.7% compared to 76.8%.

Other highlight on cash and debt:

Cash and cash equivalents of Rs. 122 crores compared to Rs. 114.7 crores the previous quarter and as all of you are aware, principle repayments of $11.25 million every quarter is happening as per schedule. And CAPEX spend in Q2 was about just under Rs. 21 crores. Net long-term debt as on 30th September is $84 million which will considerably reduce over the next two quarters.

FX hedges:

Something which obviously has helped us or will continue to help us defend our margins going forward on the offshore book that we run $50 million on the USD and £62 million. For next 12 months, we are almost 60% covered off the dollar at Rs. 70.6 and 82% for GBP at Rs. 109.7 and the Pound Philippine Peso 25% coverage at Rs. 68.6. For months 13 to 24, 39% coverage for the dollar at Rs. 73.8 and Rs. 65 for the Pound at Rs. 107.9. And for months 25 to 36, about 30% coverage of the Pound at Rs. 102.6 levels.

If I take you into our slide on how we derived our revenue by geography, by customer segments and by verticals. US continues to be our alpha geography, at 55.1% contribution of revenues, UK 38.1% and India and rest of the world at 6.8%. From a vertical standpoint, the BFSI segment as I articulated earlier would be the fastest growing vertical because of ISGN acquisition and because of significant tailwinds we are seeing in the UK banking segment is today our largest vertical at 35.5% followed by healthcare at 34.5% and Telecoms and media at 29.8%.

Revenue by segment - Customer Management 51.3%, Healthcare 31.9%, the difference between the Healthcare of 31.9% that you see and 34.5% that you see is Healthcare. Collections, from a vertical perspective it is a part of the vertical summary, from a segment perspective it is part of our collections center of excellence which is at about 10.9% and our domestic business is 5.9%.

From a client concentration perspective – top five clients 44.1%, top client 19.8%. We are growing, one of the entrants into the top five has been earlier outside the top five. The top client volumes have been stable with a slight upward bias, but also there has been a rate impact in Q2 basis the new contract negotiations which is almost coming to a close which I have discussed in the past with all of you.

Slide number 10 basically shows tabular representation of our numbers. No specific callouts that I have not already covered, EBITDA at 12.7% for Q2, PAT at 8.1%. The only cover that you can see is our taxes have gone up from Rs. 4.4 crores in Q2 of last year to Rs. 14.8 crores in Q2FY17 which is why there is margin expansion that we see up to EBIT level does not translate at the same velocity at the PAT level.

On H1 basis again – I have no specific callouts. All the graphs are trending upwards, margin expansion, growth and health of the business is robust and Q4 is our strongest quarter between first half and second half there clearly is a clear uptake as you can see from our past financial records. And this basically will give you the comfort that as we look out on how we end FY17 we are pretty much on track to meet some of the numbers we have guided to the street.

Business outlook - Brexit, the impact obviously has been adverse on currency, the Pound from almost Rs. 100 is down closer to Rs. 81 from almost 1.45 to the dollar to 1.22. While it obviously has an impact when we consolidate and translate revenues and profits from what we deliver onshore from a consolidation perspective, it does not affect the health of our business because our offshore receivables have been hedged for a longer tenure. The overall outcome, we believe Brexit will be positive for us, we have clearly seen it right now wherever our growth was predicated on investments that our clients were going to make could see a pause, but the key imperatives around driving cost efficiency to maintain a semblance of profitability has clearly demonstrating pretty significant momentum in what we believe what actions our clients would take over the next few quarters that will see growth momentum coming in the UK with a different level of vigor. So, we file what shape Brexit takes because the fog is still not lifted on what the overall impact is going to look like. But we definitely see a clear momentum on outsourcing and I would not be surprised if that would be clear momentum on off-shoring too.

As I updated you, we were the preferred partner on the Sky consolidation. We had our first successful transition of 257 employees on September 1st in Warrington. And the second transition of 900 to 1000 people is absolutely on track to be completed on March 1st, 2017. The contract is almost there and we expect to get over the line before November 15th.

The ISGN BPO business has done outstandingly well, the results from those acquisitions continues to surprise us positively. The existing customer are growing, sales pipeline looking very good and our ability to cross sell, we have gone live with clients on web chat, we have gone live with clients on customer management including digital engagement, we have gone live with analytics, everything, all the arrow heads and the robotic process automation, all the arrow heads that we see in other parts of Firstsource we are seeing significant momentum within the ISGN and Universe which is helping them deepen their wallet share within clients and add new clients significantly. So it has been a very good acquisition and a very successful integration thus far, the only thing to watch out would be the yields on 10-year bonds which are inching up almost to 1.7%, last time I spoke to you it was less than 1.5% which obviously seems to suggest that the refinancing activities should see a slowdown, but here we are increasing our wallet share and that is enabling us to be on top of our game in terms of penetration.

As I mentioned earlier we continue to maintain our growth and margin guidance for the year, our debt repayment continues as per plan and overall to be very honest, global economy is going through uncertain times, we definitely feel extremely positive on how we are setup for next year on volume growth and on margin expansion. Joker in the pack is going to be which way the GBP moves beyond the current levels, there are some thesis says that say it would go to 75, some thesis say it can bounce back to closer to 88, 90, nobody knows. But as far as what can affect our underlying health it is our offshore book which we have covered well, what can affect us is pricing on new deals where pricing earlier used to be closer to 90, 95 and today in the new environment our pricing calculators obviously are getting updated to reflect the new pound environment which is not just peculiar to Firstsource, it is going to be something common to all our competition and anybody that is going to be working with client opportunities in the future. What we do not control is the impact of consolidation of our onshore revenues where the Pound rates are going forward.

So, that is my summary. With that I am happy to pass it back to the moderator to open the floor for questions. Thank you.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin with the Q&A session. Our first question is from the line of Archit Singhal from Nomura. Please proceed.

Archit Singhal: Sir, three questions from my end. Firstly, if you could give some more color on the QoQ declines in the number, I am particularly asking for the EBITDA margin going down to 12.7%. So that is the first question. Second question is regarding guidance, if you could just confirm the numbers, is it 10% to 12% constant currency growth in revenues and 70 to 90 basis points uptick in margins?

Rajesh Subramaniam: Yes, to your second question the answer is yes, you are spot on. We are maintaining the same guidance that we have articulated.

Archit Singhal: And with an upward bias, right?

Rajesh Subramaniam: With an upward bias, yes. As far as your first question is concerned, between Q1 and Q2, as I said there is a Rs. 4.5 crores impact because of translation of our currency the Pound, where the Pound was in Q1 compared to Pound in Q2. So if I normalize that the actual decline in margins is very miniscule and that decline is a function of readying for growth, the open enrolment starts in Q3, at least with two of our big clients where there is an element of cost of growth which will translate into a revenue uptake in Q3. And there has been a transition at Sky which has required some level of expenses to be incurred to manage a smooth transition, be it technology, people and there have been legal cost on overall contracting side. Here small bits and bobs of expenses that have added up, but the big portion of it is it just mopped off Rs. 4.5 crores of translation into the bottom-line, it will actually show you a completely different picture.

Archit Singhal: Sir, what would be the impact on EBITDA basis, this Rs. 2.5 crores that is on PAT level, right?

Rajesh Subramaniam: No, it flows down from EBITDA. Whatever affects me at the growth margin it translates right down to the bottom-line.

Archit Singhal: So yes, if I add that I will have a flattish kind of a margin?

Rajesh Subramaniam: That is right.

Archit Singhal: So this is because of GBP you are saying?

Rajesh Subramaniam: That is right.

Archit Singhal: And something is because of expenses on account of Sky?

Rajesh Subramaniam: That is right. On Sky and cost of growth for supporting our Q3 scale up in my healthcare payable, supporting the open enrolment in North America.

Archit Singhal: And sir, third question would be on ISGN. In the last call, you had indicated a revenue of around $9.5 million from ISGN in one quarter and you had indicated that 2Q would be better than 1Q. So did it actually happen that 2Q was better?

Rajesh Subramaniam: Significantly, by almost about 20% to 25%.

Archit Singhal: So for the full year for ISGN we still maintain 30% to 35% higher than $25 million number which we used to indicate or it can be more positive surprise in this?

Rajesh Subramaniam: Can be more positive surprise.

Moderator: Thank you very much. Our next question is from the line of Dipesh Mehta from SBI Cap Securities. Please proceed.

Dipesh Mehta: I just want to get sense about our guidance. Now because the currency is moving very softly so can you help us understand in current reality how are you, because constant currency basis would be difficult to understand about margin movement. So considering where currency is currently do you expect the margins to stabilize presuming GBP remains where it is?

Rajesh Subramaniam: If the GBP where it is for this year, the guidance we have given holds true. If the GBP deteriorates further, then we will take a look at what the impact would be.

Dipesh Mehta: When you say guidance, the 50 to 70 bps expansion in margin?

Rajesh Subramaniam: 70 to 90 bps.

Dipesh Mehta: 70 to 90 bps expansion in margin holds true even though H1, Q2 we have seen some kind of weakness in margin?

Rajesh Subramaniam: That is right.

Dipesh Mehta: So we expect the pickup to happen in H2?

Rajesh Subramaniam: It will because we will have the full benefit of Sky in Q3 and Q4 is traditionally our strongest quarter.

Dipesh Mehta: And in terms of growth rate, if we look H1 we are around 15% in terms of constant currency growth momentum?

Rajesh Subramaniam: Yes.

Dipesh Mehta: So, last year base was relatively higher but you expect because of the momentum in ISGN and SKY we are okay with the guidance what we are guiding currently?

Rajesh Subramaniam: Yes. So Q3 is seasonally a weak quarter, Q4 is seasonally a very strong quarter and Q4 strength, so the H2 typically the ratio of H1 to H2 is about 45% to 55%.

Dipesh Mehta: And just about the Sky deal which we are working on, any contribution we have seen incrementally coming in on Q2 or largely it will come in Q3 kind of?

Rajesh Subramaniam: Largely Q3, it is one month contribution in Q2, but at the EBITDA level if I take all the expenses associated with that, it would not give the right picture but Q2 you will see the full impact.

Dipesh Mehta: And in terms of ISGN, ISGN you are suggesting roughly around $1.5 million kind of incremental revenue came from that business QoQ?

Rajesh Subramaniam: More.

Dipesh Mehta: So where is the margin, if you can give me how the margin behaved QoQ for ISGN?

Rajesh Subramaniam: So, ISGN margin has been relatively stable because the growth, so the Q3 growth is going to be better than Q2. And while the existing business continues to contribute to margin positively, there is also a learning curve impact of the new hires that come on board. So, as I said the margin profile of ISGN, the EBITDA profile is superior to the company average and that is something I continue to hold.

Dipesh Mehta: And can you help me guide, I think I missed the guidance part, you said 30% to 35% is growth in FY17?

Rajesh Subramaniam: On ISGN.

Dipesh Mehta: And what was the run-rate last year?

Rajesh Subramaniam: Last year ISGN when we acquired it on a acquired basis was about $25 million when we acquired.

Dipesh Mehta: So roughly we are looking at around $33 million to $35 million kind of thing?

Rajesh Subramaniam: Yes, with clearly an upward bias.

Dipesh Mehta: Because we have already crossed more than $20 million in H1, so I am just trying to reconcile the numbers.

Rajesh Subramaniam: Yes, in Q3 there will be a seasonality impact in Q3 and in Q4 we expect some of the growth coming back.

Moderator: Thank you. Our next question is from the line of Vishal Baheti from Walfort Financial. Please proceed.

Vishal Baheti: I would like to know what is the domestic India business that you are into right now?

Rajesh Subramaniam: This we do work for telcos for our parent which is a utility and we also have a banking customer at this point in time. And we basically do an entire customer lifecycle management for them.

Vishal Baheti: And I would like to know why is this business segment being pursued when it is giving only 5% operating margins?

Rajesh Subramaniam: I think if you have been a regular on the call you will realize that this business segment was much larger than what it is today, so this business has been brought down consciously breathing out non profitable customers. The business that we currently have is generating a contributing and we definitely believe that the contribution in this business will not deteriorate further at this point in time and it will employ almost 7,000 to 8,000 people at its business.

Vishal Baheti: So going by the statement do we expect the operating margin to expand from here on?

Rajesh Subramaniam: In this business, at this point in time it is too early for me to say, but right now I can foresee that it is not likely to deteriorate.

Vishal Baheti: And the last question, what would be your investment in the social mobility analytics and the cloud services?

Rajesh Subramaniam: There is nothing called as specific investment, these services are embedded with our core service offerings. And if you read my last two years' transcripts you will get a very good idea as to how our entire business functions, the way the company has evolved and how we make an impact to our customers in terms of arrow heads and the products that we have created which are now embedded with our core services to drive outcomes and only measure inputs.

Moderator: Thank you very much. Our next question is a follow-up question from the line of Archit Singhal from Nomura. Please proceed.

Archit Singhal: Sir, if I look at the revenue by industry, the share of telecom and media has been going down since last three quarters, I mean it was 38% in 3Q FY16 and now it is on 29.8%. So, just wanted to understand what is happening there?

Rajesh Subramaniam: Yes, I think one is every year we have been weeding out non-profitable customers, so a big footprint of our T&M, the telco part, the domestic business as a big footprint. And as I had mentioned, a very large US telco consolidated us out in January 2016, that has had an impact of about $20 million this year. So, basically we have lost a client almost every year in the telco segment in the past, one was the largest Irish telco two years back, then it was US telco last fiscal, the impact has reached this fiscal. And through the journey we have also been rationalizing our domestic footprint predominantly of telco customers.

Archit Singhal: You are talking about the Verizon ramp down?

Rajesh Subramaniam: That is right.

Archit Singhal: And sir, secondly I wanted to understand on Sky, you said the contract would be signed by 15th of November.

Rajesh Subramaniam: Assuming everything gets done, we were expecting it to be end of September, it got delayed to October but yes, it is well on track.

Archit Singhal: And secondly, you also mentioned that there was one month contribution in second quarter from Sky?

Rajesh Subramaniam: That is right.

Archit Singhal: One month incremental contribution, so I just wanted to understand because if the contract would be signed by November the incremental contribution has already started coming in September only?

Rajesh Subramaniam: Yes, under the LOI that we have signed we have already, affecting the actions under the contract have already begun.

Archit Singhal: And for that one month, what is a EBIT negative or EBIT positive contribution?

Rajesh Subramaniam: EBIT positive.

Archit Singhal: Because, I mean I was just again trying to see how the EBITDA margin has gone down so much apart from USD.

Rajesh Subramaniam: EBIT is positive but EBIT dilutive.

Archit Singhal: And sir, last thing, any more color can be given on Sky in terms of incremental revenue contribution for FY17 as well as margin contribution?

Rajesh Subramaniam: Yes, for FY17, as I have mentioned Sky contribution from consolidation would be about $10 million depending on how the Christmas season plays out there could be an upward bias. But yes, $10 million upward uptake between Q3 and Q4 and Q4 we get the benefit of almost 900 to 1000 employees only for one month, so that will have a huge impact in Q1 as it steps up for the entire quarter.

Archit Singhal: And in terms of EBITDA margins?

Rajesh Subramaniam: When?

Archit Singhal: Because of this $10 million extra contribution in terms of revenues…..

Rajesh Subramaniam: As I said, it is all factored in the margin guidance, I do not want to go account by account. Guidance I have given you at the PAT level that captures everything that I am speaking about.

Moderator: Thank you very much. Our next question is from the line of Mohit Jain from Anand Rathi. Please proceed.

Mohit Jain: First is on pricing environment, so how are you seeing post Brexit your pricing environment? And if the hedges eventually go out of the system, then do you expect some price increases adjusted for the currency or will you stay where you are?

Rajesh Subramaniam: So, I think there are two elements to pricing. On new deal pricing we clearly ask stepping up the calculator on our price to reflect, I mean it definitely would not get me to the 110 levels but it will get me closer to somewhere between 95 and 100 for 12 months out. And I would not lose a deal because whatever is happening is common to almost all the people that I would be competing on. What I still will be watching out for is post the Brexit the impetus we will see on offshoring from our existing clients on existing lines of work under existing MSAs is where the challenge is going to be on how much I can go back and ask for a price increase. So conversations are ongoing but it is not at the level because we still do not have clarity on what will be the kind of growth that they are going to commit to us, most of which we will see next year. And importantly what is going to happen is what is the volume commitment that comes through which will then enable us to take a look at the operating leverages, essentially the fill factor at 72% if that can step up to 90% it obviously gives me enough operating leverages where in an ideal world if the Pound was where it was before Brexit it would have aided me margin expansion, now we will have to look at strategies at margin difference and how much dilution which would not be significant, but there could be a potential dilution because no customer is going to give me an 18% price increase because of where the Pound was and where the Pound is today.

Mohit Jain: Second is, if you can help me with your target number for FY17 net debt closing.

Rajesh Subramaniam: As I said, close would be $85 million, north of another $22.5 million, assume another $15 million to $20 million cash accretion and then for the Sky deal there will be some leverage. So my sense is $85 million minus $20 million, so my sense is closer to $60 million to $70 million.

Mohit Jain: Your SKY payment has not happened yet, is it?

Rajesh Subramaniam: No, it hasn’t, contract has not been signed yet.

Mohit Jain: So it will happen in the December quarter most likely?

Rajesh Subramaniam: That is right.

Mohit Jain: And second is, is there any other left out deal which you are like closely tracking before March?

Rajesh Subramaniam: Yes, there the pipeline is robust and the quality of our deal pipeline is now on transformation deal in the customer management estate. The deals are not just plain outsourcing, the deals are leveraging our arrow heads, the deals are leveraging everything from reducing total cost to serve which is embedded with automation technology and digital strategies and predicated on outcomes. So, very excited about the referencibilty that something like Sky and the largest mortgage bank in the UK has given us, and a lot of our big deals today on the transformation side is in the banking industry.

Mohit Jain: So what I meant to ask was, any deal where you would be paying out cash and then taking incremental revenues over like five years, seven years kind of a period?

Rajesh Subramaniam: Nothing significant, nothing of the magnitude of Sky.

Mohit Jain: And the deal which you just referred to where you have signed a contract for incremental business, how are the margins on that particular renewal?

Rajesh Subramaniam: Yes, I think it is a long-term contract which has been signed and what has happened is we will be taking market share from one of our clients' existing partners and it is going to be margin neutral it would not be margin dilutive.

Mohit Jain: So this is part of the vendor consolidation that has happened?

Rajesh Subramaniam: That is right.

Mohit Jain: And I guess there is no upfront payment etc. for this?

Rajesh Subramaniam: No, nothing.

Mohit Jain: It’s the usual contract?

Rajesh Subramaniam: Yes.

Moderator: Thank you very much. Our next question is from the line of Ruchi Burde from Emkay Global. Please proceed.

Ruchi Burde: Sir, I wanted to ask about there is a strong growth reflected in your second to fifth client, if you could share more color on this.

Rajesh Subramaniam: As I said, second to fifth client we have a couple of banking clients which are showing robust momentum. And it just comes back to how bullish we are in that industry segment which is helping us show significant momentum. One of the clients in the top five was not in the top five which has entered the top five for the first time, which is why it shows a 44% concentration compared to 42% in the last one year.

Ruchi Burde: Is this new client featuring in top five is also from banking?

Rajesh Subramaniam: That is right.

Ruchi Burde: And also I wanted to check that we had said that we need to put on investment for Sky contract, so have we started investing or it is a little…?

Rajesh Subramaniam: No, it will happen once the contract is consummated which we expect to do before 15th November, 2016.

Ruchi Burde: As you alluded in your commentary that the composition of our deals are changing, now we are working on more transformational deals with more arrow heads, new kind of services. Do you see that leaving you with a better realization and better margins or pricings in terms of billings are more or less similar?

Rajesh Subramaniam: No, it does. The quality of revenues and quality of margin profile will definitely improve because in any of these arrangements there is an incentive structure which is predicated on outcomes where there is motivation to get to certain levels of efficiency where we enable ourselves a reward mechanism which is completely close to the bottom-line.

Ruchi Burde: I had two bookkeeping question as well, if you could share what exactly is your proportion of revenues that is in GBP currency?

Rajesh Subramaniam: Our total GBP exposure was £190 million offshore and onshore included, so if we take offshore at about £50 million then our onshore would be close to £140 million.

Ruchi Burde: And secondly, last quarter you had disclosed a new deal win ACB to be 20, any number you are revealing for this quarter?

Rajesh Subramaniam: About 15.

Moderator: Thank you very much. Our next question is from the line of Bhaumik Bhatia from Girik Capital. Please proceed.

Bhaumik Bhatia: Firstly on the tax rate, if you can throw some light on the sustainable tax rate going forward? Secondly, on the Sky deal signing, is there any specific reason why it is taking too long, I mean I think the earlier time in September and then it was postponed to October and now it is made November.

Rajesh Subramaniam: A lot of people are taking vacation here, that is the honest answer.

Bhaumik Bhatia: And lastly, I think Mr. Sanjeev Goenka spoke about niche acquisitions that you guys are looking at, so if you can throw some light on what are the kind of acquisitions and what are the synergies that you are looking for?

Rajesh Subramaniam: we are looking two or three areas, in the healthcare space we are looking at some tuck-ins which enables us to accelerate the entire lifecycle management space, these are technology platform tuck-ins. At an enterprise levels we are continuing to look at technologies that can improve the entire customer experience learning, so that is the one segment that we are looking at. Analytics, we have a strategic stake in Nanobi, our platform partner and we will use that and see how we create solutions going forward. So yes, our interest areas are very, very defined and very niche, we are not going to be doing a big acquisition for scale. Like what we did in ISGN which got us into the second largest market in the BFSI segment in North America, we will look at similar size acquisitions that fill our service gaps and it just improves our domain and gives us wider coverage with new customers.

Bhaumik Bhatia: On the tax rate?

Dinesh Jain: Yes, on the tax rate I think first quarter we said that we are making investment on SEZs and that I think we will able to do successfully. I think tax rate effectively will be around 18% for the year which you can see in the Q2 also the tax rate is lower compared to Q1, it is around 18% for a year.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to Mr. Subramaniam for closing comments. Over to you.

Rajesh Subramaniam: Thank you. Guys, it has been a reasonably good quarter and we are extremely bullish on how we are going to end this year. Engines for growth is the banking industry segment both in US and UK and of course our largest client will scale this year. We are set very well for next year, all the tailwinds that we see this year set us up with a very robust profile next year. And if a couple of our deals translate into wins towards any part end of this fiscal we are just in. A joker in the pack is of course the Pound, where does the Pound end and what impact it has on a consolidation basis and in after two and a half, three years what happens to the Pound is something to be watched to figure out what happens to our underlying current receivables which are significantly hedged and what impact it might have. But felling relatively comfortable where we are at this point in time and confident of the guidance that we have set out with an upward bias. And really appreciate your time today. Thanks for joining the call and we will be more than happy to take any follow-up questions you have, Ganesh Iyer would be available to answer with any questions that you may have. Thank you.

Moderator: Thank you very much, members of management. Ladies and Gentlemen, on behalf of Firstsource Solutions Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.