Q3 FY2017 Earnings Call Transcript – January 31, 2017

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 Q3 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ganesh Iyer – Firstsource Solutions Limited. Thank you and over to you, Sir.

Ganesh Iyer: Welcome everyone and thank you for joining us for the Q3 FY17 Earnings Call. Please note that the results, fact sheets and the presentations have been emailed and you can also view this on our website www.firstsource.com.

To take us through the results and to answer your questions, we have with us today Mr. Rajesh Subramaniam – our Managing Director 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 that is said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in the conjunction with uncertainties and the risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and the subsequent annual reports that we have on our website. With that said, I would now turn the call over to Mr. Rajesh Subramaniam, our MD and CEO.

Rajesh Subramaniam: Good afternoon everybody and thanks for your time today. Let me quickly go through the highlights of the quarter, nine-month period and the outlook and then we can open it up for question and answers.

From a Q3 FY17 perspective, operating revenues came in at Rs 885.4 crores compared to Rs 884.4 crores in Q2 of FY17 and Rs 818.6 crores in Q3 of FY16. The year-on-year growth in rupee terms was 8.2% and 13.9% in constant currency terms. Sequentially, we grew 0.1% in rupee terms and 2.1% in constant currency terms. From an operating EBIT perspective, Q3 FY17 operating EBIT came in at Rs 91.6 crores compared to Rs 96.5 crores in Q2 FY17 and Rs 85.3 crores in Q3 FY16. The year-on-year growth has been 7.4%. There has been a slight margin contraction of 8 basis points from 10.42% to 10.35%. Quarter-on-quarter, there has been degrowth of 5.1% while the margin has contracted by 57 basis points from 10.92% to 10.35%, so three factors on the margin performance; one is Q3 is typically seasonally our weakest quarter, number of holidays, Christmas, Thanksgiving and lesser number of working days ensures that Q3 and this has been through traditionally. The other two factors have been, one because of the demonetization which was undertaken, our domestic business actually slipped in to an operating EBIT loss because of volumes from our large Telco clients, where the prepaid accounts have been a big portion of the business diminishing and third, there has been a big movement as you would recollect my past summaries, the 10-year treasury yields has a direct impact on our mortgages business and 10-year treasury yields in pretty much the last 20 years has not seen a moment of more than 40% from 1.5% to 2.5%, which is ensured that the origination volumes what we have seen in Q2 and in the first month of Q3 have seen a different trajectory and that volume softness has resulted in profit softness in the mortgage business, which has also impacted our margins for the quarter, but despite these headwinds, we have still managed to maintain a level of profitability, thanks to better-than-expected performance in our Collections, Customer Management and Healthcare provider business. At the profit after tax level, Q3 PAT came in at Rs 70 crores compared to Rs 71.3 crores in Q2 FY17 and Rs 67.4 crores in Q3 of FY16. Year-on-year growth of 3.8%, 33 basis point margin contraction. Quarter-on-quarter degrowth of 1.8%, margin contraction by 15 basis points. Again, there has been a higher incidence of tax compared to the preceding year, which has impacted our margins, which all of who have been following our stock would have seen from the transcripts of the earlier quarters.

From a 9M FY17 perspective, revenues came in at Rs 2,663.3 crores compared to Rs 2347.8 crores in the 9M of FY16; year-on-year growth of 13.4% in rupee terms and 14.7% in constant currency terms. Operating EBIT came at Rs 291.1 crores compared to Rs 227.5 crores in 9M of FY16, year-on-year growth of 28%, margin expansion by 124 basis points from 9.69% to 10.93%. For 9M FY17, the profit after tax was at RS 214.6 compared to Rs 179 in the same period last year, year-on-year growth of just under 20% and margin expansion by 44 basis points from 7.62% to 8.06%.

Other highlights, 25,992 employees as of December 31, 2016, out of these 15,573 employees in India and 10,419 employees outside of India. We added 1082 employees in Q3 FY17 to support our growth across our space in India, US and UK across pretty much all our clients. The 48 delivery centers pretty much the same as we had as on September 2016. Seat-fill factor has improved by about 230 basis points between September and December. Attrition metrics have come in much better in this quarter compared to last quarter, at least in the international business, offshore - India and Philippines was 37.5% compared to 43.7% in Q2 FY17. Onshore - US and UK were at 38.2% compared to 49.9% in Q2 FY17 and the domestic business has deteriorated slightly but nothing to worry from 71.7% to 76.4% in Q3 FY17.

Cash and cash equivalents stood at Rs 126.5 crores as on December 31, 2016, almost the same as it was in Q2 FY17. We repaid our principal installment of $ 11.25 million on December 31, 2016 and our CAPEX spend in Q3 FY17 was Rs 17.7 crores. Net long term debt of $ 72 million as on December 31, 2016. From our outstanding foreign exchange hedges, it is $55 million for USD and GBP £53 million. Next 12 months, 70% of the dollar is covered at Rs. 71 level, 82% for the pound at Rs 110 levels, 17% coverage between the pound and the Philippine Peso at 68.7 levels and 8% between the dollar and Philippine Peso at 48.3. For the subsequent 12 to 24 months, 37% coverage of the US dollar at Rs 74.1 levels and 45% coverage of the pound at Rs 106.3 levels. In the subsequent 24 to 36 months, we found it prudent as we take some covers on our pound, so we have taken the 46% coverage to the pound at Rs 102.6 levels.

Composition of revenues segment wise, geography wise, vertical wise, North America continues to contribute the largest footprint of revenues at 56.2% per 100 basis point improvement from the previous quarter. UK, a slight decrease of about 50 basis points from Q2 at 37.6% and Domestic business from 6.8% down to 6.2%. From a vertical perspective, roughly these splits are largely in the same zone, Healthcare at 35.6%, Telecom and Media at 32.9% and BFSI at 31.2%, so obviously, the big movement on BFSI between Q3 FY16 and Q3 FY17 with the integration of ISGN from April onwards. By delivery location, 72% is on-shore, 23% is off shore and 5.5% is domestic. From client-concentration perspective, our largest client contributes 23.5% up from 19.8% in Q2 FY17, thanks to the consolidation exercise that we undertook as a part of our entire e-contract and our top five customers contribute 45.3%.

I will not spend too much of time on the next slide, it is basically a tabular representation of our numbers for Q3 FY17. All the callouts here have explained, EBITDA was at 12.1% compared to 12.4% in Q3 of FY16, profit after tax stood at Rs 70 crores almost at 8% compared to 8.1% in Q2 of FY17 and 8.2% in Q3 of FY16.

Let me take you through the 9M FY17 graphical representation, again all the follow ups have been explained. EBITDA expansion of about 80 basis points, EBIT expansion of about 120 basis points and PAT of about 50 basis points year-on-year. Again, there will be some stress in Q4, thanks to in a way we are on a mortgage business, but Q4 seasonally will be the strongest quarter, so there will be interims of positive momentum, which should see us end up much better.

Our business outlook perspective, macro environment headwinds, there has been uncertainty in the months ahead. I just want to be cautiously laying out the tone that the US election has thrown quite a few curveballs that we are watching out for. Keenly watching the impending changes to Obamacare and other executive decisions by the current US administration. Fundamentally given, we straddle both payer and provider side, we should come out okay, irrespective of any changes that happen because if the number of uninsured increases, it's our provider business that will do well. If there are going to be issues around pricing in trying to play around with the medical loss ratio, that can affect the payers, there should be a momentum to outsource and offshore more to try and recover some of pressures due to where premiums will end up bad and with the fallout of more insured into the uninsured if changes happen, so overall with all the sensitivities that we have seen, we believe that we should come out okay, irrespective of what changes can happen at Obamacare given we straddle both sides of the fence. What worries me is the US interest rates and the resulted bond yields as I have mentioned US bond yields have moved from 1.5% to 2.5% and with portion of our business actually most of the mortgage origination business across spectrum is largely driven by refinance, new economic inventory of homes has not been added at the pace that we have seen pre-Lehman days, but so most of the momentum was driven by refinance and that has been affected, volumes are down and will stay down in Q4 for sure, so as a strategy what we are doing is obviously, we are widening the base. Sales momentum is pretty robust. We are adding customers regularly and we are also now diversifying into the mortgage servicing and mortgage contract center site. We are hoping first largely, we will go live from the first of June on the contracts center site, how the capacity is that we had in Eugene where we used to work for a big Telco, so the entire infrastructure is up and ready and can go live very quickly. We are adding and our focus is on the non-banking mortgage company side and NVR, showing robust traction in bringing, onboarding new customers, and hopefully a combination of all these initiatives will help us recover volumes that had softened significantly thanks to the hardening of bond yields.

On Brexit, UK Supreme Court ruling on parliament approval for article 15 to be triggered, we will see how that plays itself out, hard exit, soft exit, do not know what shape that is going to take, so the impact on the pound is evident. The pound has been hovering as low as it fell just below 80 and odd, somewhere between 84 and 85, so we are continuously watching opportunities where we can increase our covers for beyond 24-36 months, if the pound does appreciate temporarily. All of you know that we were the preferred partner for Sky, we transitioned the first center with 200 plus employees in September in Warrington and another 900 to 1000 employees to pay over to us on the March 1st. The contract has now been signed and it is a 10-year contract, so from our perspective, we continue to provide differentiated solutions, big focus on automation and digital customer experience learning, methodologies to measure, manage and improve customer experience, automation is real. The opportunities around automation is significant in mortgages in the US, in mortgages in UK, in the Healthcare business especially on the payer's side, big, big opportunities and feel very positive about how we can scale the business going forward. We continue to maintain our revenue growth guidance, however margins could be impacted slightly on account of the underperformance of the mortgage business unit as the follow up in profitability has been little significant compared to where we were in Q2 and very early Q3, so obviously actions are being taken to see how much we can claw back, and of course, there has been cost of growth. We have been scaling with the customers in Healthcare especially during the enrolment period which will end in Feb where we still will be seeing net additions to our employee headcount, but overall, the confidence on Q4 exists, it obviously is going to be with an upward bias to where we came in at Q3. On a year-on-year basis, I would expect that the numbers would be largely flat where we could have been ahead by probably about anywhere between $500,000 to $750, 000 if we had not had the issues in our mortgage business plus the other thing you should realize is that year-on-year, the translation of the currency adjustment alone has resulted in Rs 10 crore reduction in profitability between last year and the current fiscal, so keeping all these issues in mind, I would still believe it is going to end as a reasonably good year for us despite the challenging environment that we are operating and with almost three black swan events last year between Brexit, Trump election and demonetization, each one having had an impact on various parts of our business in this fiscal. Debt will be continued as per plan, no change in that and that is the summary I had and we can open it for Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Kaushal Kedia from Blue Water Investments. Please go ahead.

Kaushal Kedia: I just wanted to know there are some rumors going around about restructuring of your company, is that true or is that just rumors?

Rajesh Subramaniam: There is no restructuring of Firstsource, there is absolutely no truth, we just finished the board meeting today, so trust me, there is no restructuring in Firstsource.

Kaushal Kedia: If not Firstsource, probably in the parent company, any idea?

Rajesh Subramaniam: That I do not have a locus standi to comment, I think you should ask the folks at CESC and get to know more, but I cannot comment on where we are, but as far as Firstsource is concerned, it is business as usual.

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

Priya Rohira: I think the confidence on this sky deal which you are exuberating, just wanted to get a little bit more color in terms of what number did we look in this quarter or say we are looking in this FY17 and how do we see acceleration from FY18, that is one. Secondly, would you give us an update on the ISGN BPO update?

Rajesh Subramaniam: Sky is, as you know, we are now the single partner. We have consolidated our competition and all incrementally growth from Sky would be between whatever capacity they would have in their captives and Firstsource, plus over the next three years, there will be disruptions in the way we will bring about value adds in either deflection, churn management, in sales, so all vectors are now in play in terms of our arrowheads to try and drive momentum, so the way I see it in a perfect world, there will on a ceteris paribus basis, there should be a reduction in volume over the next years, but incremental growth which Sky and Sky is the most aggressive acquirer of customers and driver of ARPUs in the UK market, and so I would expect non-linear growth in profitability in relation to revenue growth, which means I will not be adding as many people to deliver the same level of revenues as we have been doing in the past, plus now with the Rupert-Murdoch acquisition if that goes through, there would be a lot more cross-border flow of programming content and data which I think will hold us in good stead as a single provider, so overall very, very positive about Sky. In March 1st, we consolidated the other center which 900 to 1000 people, Sky alone on my starting point on April 1st, I start with a 6 to 7% growth visibility for FY18 as we exit March 31, 2017. It also sets me up very well for growth next year and my ability to grow at the industry leading growth rates is definitely possible, so that is on Sky and as far as ISGN is concerned the acquisition obviously started very well. We continue to believe it brings significant amount of domain, wonderful bunch of key management team, great set of customers. It is just that in the last 20 years, in the US, bond yields have not reacted at the pace at which it has happened over the last 60 days and that has ensured that the whole refinance market which was the big market segment for our customers, the volumes have come down significantly. First, we have to see where these yields stabilize at and what the outlook is on the interest rate environment. Then, we are working with our customers to figure out how we claw back some of the lost volume as I had mentioned in other facets of business, which ISGN historically has been excluded which is in the servicing side, whether it is servicing related to platform-based processing using automation and workflow management or whether it is on the contact center side, where you bring nuances of everything from self-help to premium voice, using FCI, using IC square and some of the arrowheads we have in delivering a differentiated customer service experience, but all this will take time, and the good thing is we have a very good sales team and we are almost adding a logo a month, or we are adding new SOWs with existing customers at a rapid pace, so we are widening the base and trying to derisk our reliance only on refi origination market segment, but it will take six months for the adjustment to happen, so I definitely see by June, July, August, I definitely see this business clearly on the positive track of both growth and profitability.

Priya Rohira: Sure, that is helpful. If I can just squeeze in both with respect to Sky, Sky we were looking at around $17 million incremental revenue in FY17, given what you are saying we are on track over there?

Rajesh Subramaniam: It was $10 to $12 million, Priya, I do not know where you got $ 17 million from, it was $10 to $12 million.

Priya Rohira: I am saying FY17, $10 million?

Rajesh Subramaniam: FY17, that is perfectly, completely on track and beyond that there would an incremental $30 million to $35 million in FY18.

Priya Rohira: So, you are saying $10 to $12 million this year and next year $30 to $35 million, right?

Rajesh Subramaniam: Add another $ 30 million to the, so if I am consolidating $40 to $45 million, $10 million accrues to me this year, incremental $30 to $35 million will happen next year, but I will be more comfortable somewhere in the midpoint between $32.5 million incremental revenues, so $32.5 million on the current, my starting base sets me up with a visibility of 6-7% growth for next year.

Priya Rohira: On ISGN from $30 to $35 million, which we were looking at for this year, given the fact that H2 basically Q3, Q4 might trend lower because of the bond yields, would you have, like we would be back to the $25 to $27 million or you think it might be appropriate to just keep it at the low end which is like $30 million?

Rajesh Subramaniam: It will definitely do much better than that. Q3 revenue wise has been good, the numbers that ISGN will deliver would be much higher than $35 million this year in FY17 and the expectation is we will keep it at those levels next year at a basic minimum. The budget discussions I am having with my CEO and the team is obviously numbers are much higher, but it is safe to assume that ballpark. It is definitely not going to go anywhere close to $25 to $27 million.

Priya Rohira: What you are saying is basically FY18 growth will be either flattish in the worst-case scenario if I were to read it?

Rajesh Subramaniam: Worst case scenario, it will be flattish, that is right.

Priya Rohira: Secondly, in terms of the deal pipeline, can we have some color because the demand environment seems to be a little mixed as what you have already highlighted with some opportunities in certain pockets like media and telecom and if you could just help us on the deal pipeline?

Rajesh Subramaniam: The pipeline is $350+ million, very robust pipeline in our Healthcare provider business, pretty robust pipeline in our customer management business, where there are missing significant momentum on deals we have won, we have added three new logos in Q3 and early part of Q4 and all those will scale in the UK rapidly. Our sales momentum in provider business is very good. Our differentiator value added services are actually working around denial management, around healthcare analytics, the whole axis analytics. So, provider and customer management, the outlook is positive, the collection business is looking well, obviously higher interest rate is ensuring higher liquidation, so we definitely see more opportunities in the collection business, so that is poised for continued growth. The payer business is going to see a little bit, we had a little bit of reorg, we have a new sales team that is come in the payer's side of the business and in that business, at this point in time, if I have a weak pipeline today, that would be in my payer business at this point in time. There the business is more about mining existing customers and we work for four of the top 10 players, so we are trying to see how we penetrate and get more business and there is a new leadership change in that business which hopefully will ensure that we have a buildup of the pipeline in the payer business. Domestic business is largely flat as much as we have not actively diversifying into the banking business. We recently signed $40 million, five-year deal with a very large bank to do end-to-end customer lifecycle management at healthy margins and the more we diversify out of Telco, we believe that it will give semblance of predictability of margin because from operating at 3-4% EBIT margins, we went into a loss in Q3 and it is likely to spill over into Q4, so that is another reason why we have some impairments to our margin trajectory from the mortgages in domestic business.

Priya Rohira: That is quite elaborate. Would this $350 million compare almost a flattish versus last quarter given the?

Rajesh Subramaniam: It will be 10-12% higher than last quarter.

Priya Rohira: That is really good, you are saying this is versus Q2?

Rajesh Subramaniam: Versus Q2 FY17.

Priya Rohira: If I can squeeze in one last question, you mentioned on the margins could tend a little lower. This quarter, we have seen improvement in offshore, is it due to the absorption of the Sky employee base and that is why we are not contributing given that they might have just come in and settled in?

Rajesh Subramaniam: Sky is all on-shore, this off-shore has grown because in the early part we saw growth in our mortgage business and also we have seen growth in Sky, but that is not from to Pay but that is organic growth where they have added a new line of business which has grown with us and actually as I said we have 1082 people we have added, we have grown across spectrum, across our customers. One of our banking clients from our UK market also increased his footprint, so I cannot pinpoint one specific client, but the moment of the action has been evident.

Priya Rohira: This would mean that what we were targeting 70 to 90 basis point, margin improvement YOY, we might be at somewhere around 60-70 odd there?

Rajesh Subramaniam: So, 70-90 basis points was at the EBITDA level that would be 50-70 basis point at the PAT level it could be the projection was about 40 to 50 basis points that could be closer to 22 to 25 basis points is where we see things right now.

Priya Rohira: At the PAT level 20 to 25 basis point?

Rajesh Subramaniam: And about 40 to 50 basis point at the EBITDA level.

Priya Rohira: Top line will grow higher than the industry?

Rajesh Subramaniam: Yes, absolutely**.**

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

Mohit Jain: One is related to your top two to five clients, while Sky has seen growth, top five accounts, we do not see that growth translating, any specific client issue that you are facing here?

Rajesh Subramaniam: Top five, I also have a domestic Telco, which is in my top five-client and those volumes did soften.

Mohit Jain: The entire $5 million odd incremental that we got through Sky, that was the quantum of decline which we saw in this Telco account is it?

Rajesh Subramaniam: Not exactly, because $44.1 to $45.3 million, Q2 to Q3, so that is about 120 basis point increase and Sky increase about 350 basis points, so net is 200 basis points is the net delta, one Telco client definitely volumes softened and of course, the mortgage client which had a stellar Q2 as I mentioned there are no volumes have softened November and December, that also had an impact which is in my top five.

Mohit Jain: Any recovery you have seen in January so far in that particular Telco side?

Rajesh Subramaniam: In mortgages no, actually the revenue line will be weaker in Q4 than Q3 from a mortgage view because the full impact of the yield is the volumes and the impact we are seeing in Q4.

Mohit Jain: Second thing was 4Q guidance, when you mentioned flattish YOY, does it mean at the company level or are you referring to specific service lines?

Rajesh Subramaniam: I am referring to Q4 to Q4, company level.

Mohit Jain: It could be flattish, that means our 4Q run rate on a YOY basis could be significantly lower in dollar terms?

Rajesh Subramaniam: Rupee terms flattish, dollar terms will be higher, because obviously to achieve flattish in the lower exchange environment with the pound at 85 compared to 95 in the same period last year and dollar remaining largely at the same level, 66-68, so the impact on the pound has obviously been telling for us, that is why I mentioned if on a nine-month basis, 9M FY17 to 9M FY16 our profitability at PAT level is Rs 10 crores lower on account of the exchange rate translation.

Mohit Jain: Lastly, on your SG&A is there any scope of increase given the top client is generating significant revenue for us and if margins is something which you may see, some pressure going forward, is that a lever which you can utilize or that is logged at 22-21% kind of number.

Rajesh Subramaniam: SG&A is not a 22-21%, are you talking about top line contribution or are you talking about. Anyway, you can settle back with Dinesh, you might be looking at the standalone numbers, but SG&A is closer to about 11-12% of our overall revenues.

Mohit Jain: I was looking at other expenses which you showcase separately apart from personal expenses, which I am building in this growth margin and then operating?

Dinesh Jain: Operating expenses do include facility cost and all, which is part of the gross margin, it will not be SG&A.

Mohit Jain: Is there a possibility of it getting reduced as a percentage of revenue?

Rajesh Subramaniam: The SG&A expenses will not, we are on investment mode, we are hiring different key senior management across several facets that will drive future transformation, so SG&A expenses in absolute term will not reduce, but SG&A expenses as a percentage of revenues could reduce, but not in absolute terms.

Mohit Jain: Whatever impact we see under revenue lines, that is likely to pass through the EBITDA?

Rajesh Subramaniam: That is right.

Mohit Jain: Lastly, you talked about regulations, anything to do with corporate tax rate in the US that may impact your operation?

Rajesh Subramaniam: Again, we do not send anybody on H1B, we employ about 3500 people in North America, out of which probably three or five people would be on H1B, L1 kind of a visa status especially in functions around finance and process excellence and stuff like that, so if corporate tax rates come down to the levels that have been talked about, I think it is going to be a hugely beneficial and hugely EPS accretive for us.

Mohit Jain: What will be your average salary for on-site employees?

Rajesh Subramaniam: Again on-site, I employee local Americans there, I do not send Indians, I do not send people on H1Bs from here.

Mohit Jain: What would be their average salary?

Rajesh Subramaniam: It depends on business to business, so for example, in mortgages business, salaries could be anywhere 10% above minimum wages to double minimum wages per hour, for collections business, my top collector earned about $120,000 with incentives thrown in and again these are not H1B, they do not have this $65,000 going to $130,000 because some of my business' salaries are lower than $65,000, but they comply with US regulations in terms of what we pay them for the skill sets required.

Mohit Jain: It is double of US minimum wage, not H1B minimum wage?

Rajesh Subramaniam: That is right, what I said was the range could be double of minimum wage.

Moderator: Thank you. We have the next question from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Just one quick question, if I understood your commentary reasonably well, last quarter was like one of the very exceptional in terms of the business environment in all the three geography where we function, where we work, if one wants to normalize the environment and look forward, how do you see the growth rate stabilizing going forward and I think we are almost repaying all the debt which we have and will we kind of start generating reasonable cash flow, so any specific plan has been discussed at a board level to kind of reward existing shareholder or something like that, if you can talk about that?

Rajesh Subramaniam: I think a great question Chetan, one the UK market for me today presents a significant opportunity, while Brexit had an impact on the exchange on the currency regime, but from the pipeline and opportunity and the deals we are winning, the UK presents significant opportunity, I would rank that number one. The US Healthcare provider as I mentioned is showing very nice signs of growth, but it obviously comes off a low base of $85 million, so even if we grow that by about 10 to 12% with $8.5 million to $10 million addition, but still it obviously adds to our overall company's growth trajectory. Mortgages is the question mark, do not know at this point in time on our core origination business, but the wins that we are having on the servicing side are heartening, but they take time to go live and stabilize at the maturity curve, so for me the impact of what will happen with elements of the Affordable Care Act being repealed as being part of the propaganda of the new President's agenda, and where the yields will and what happens to the refi market, are still unknown at this point in time, so where we will end up in the US, again as I said lot of our growth is onshore, we employ local American, so we do not have some of the structural issues that you are seeing, but it is all dependent on the health of the economy and what happens to the economy and how it plays itself out. For sure, the providers in the collections business are going to be extremely on a positive trajectory. The payer business, mortgages business is something which I am not able to comment on at this point in time. Similarly, domestic business as I told you it is profitable growth or we degrow, that is the mantra and we will be sticking to that strategy and it is playing out well, so on a normalized growth given the uplift we will have some Sky going into next year at least, next year we definitely will be at the top end of industry growth, whatever industry growth rates are we will be at the top end of it given our starting point next year. This year, the numbers would be anywhere between 12.5% to 15.5% between rupee and constant currency terms. So, this year obviously has been a good year and next year we expect, there is no reason why we should not be able to maintain a similar trajectory given the starting point and as far as cash flow, you are right, we generate more than Rs 450 to Rs 475 crores of EBITDA, debt repayment, practically by next year, we should be practically zero net debt. There are conversations around rewarding shareholders on the lines of a dividend which keep happening at the Board, and as I have told the constituents as a company I think next year we should be ready.

Chetan Shah: One follow up question, you spoke about deal pipeline to the tune of $350 million to $375 million which is there as of now in terms of the visibility, if one wants to know in terms of the opportunity, because I think lot of people were sitting on a sideline specifically in USA and also in UK market, waiting for the political and economical stability to come back and some clarity comes in, do you see this pipeline can go up by the time March or June comes in and we can have a far better or far bigger pipeline possible or that is too much to expect?

Rajesh Subramaniam: One thing I will say that lot of decisions in the pipeline have got delayed both in the US and UK, I can tell you that much. Lot of the deals which were supposed to, thanks to Brexit, fall off actions of Brexit, uncertainty around org structure, org design, there has been a whole bunch of actions and events which have been consistent which have delayed decisions in the UK, this is thanks to Brexit and we have seen it clearly. So a lot of those deals which should have come to a decision are still sitting in the pipeline because of delays in the system, so that is one. As far as the US is concerned, as I said the provider pipeline, hospital network pipeline is looking very good, mortgage pipeline is looking good, but the pipeline conversion is also quicker compared to the other businesses that we have but that will be playing catch up to fix some of the growth that has fallen off, thanks to some of the structural changes which have happened in the market, but the pipeline conversion if some of the clogged deals unclog over the next three months plus what we are seeing in the UK, as I said I expect the pipeline in customer management in the UK to show the sharpest increase because some of those deal sizes are big, each deal could be from $5 million to $30 million a year, kind of deals that we see in that market segment. So over the last one year, we have invested in the right salesforce and potentially, personally I think thanks to Brexit if investment around growth get curtailed because of whatever happens in the UK, there will be imperatives for companies to take costs out, maintain a certain level of solvency and profitability which then presents as an opportunity at the other end of the value chain, so right now anything that we are doing around forward-looking transformation solutions to take it to the next orbit will then move back into more automation-driven solutions to try and take costs out to help companies, to help our clients deliver better, so for me either way, I personally think Brexit is going to have a positive momentum on a pipeline in the UK, but obviously currency where it is, it posts a certain pricing pressure because any of our existing customers scaling up in India or Philippines are used to a certain price which has been working well because of certain exchange regime, but exchange regime is down 15%. There are going to be some sticky conversations around pricing which are going to emerge, nothing that we have not dealt with in the past, but we just have to deal with them and that can have an impact on decision making from our client side. Chetan, it is a long answer, but I hope I am giving you something.

Chetan Shah: I understood, just one last question on US market and US part of the business in specific, if we see like today's announcement by Trump in terms of H1B and L1 visa restriction and stuff like that, and luckily our structure and the way we do the business, we have relatively far lower impact of that in our total business environment, but does this also can bring more opportunity to us, the way our businesses are being structured from a manpower point of view or the way we do the business vis-à-vis our existing competitors who are from non-US part of the business, I am just trying to understand does this bring more opportunity to us or things are kind of status quo, whether this has happened or not happened?

Rajesh Subramaniam: I think it would be the status quo because most of the H1B is on the IT side, I do not think too many BPO companies if they have onshore presence will be sending people from India at the execution level, supervisory probably, yes that is a small universe, so my sense, Chetan, the answer is more status quo than positive, but what will happen is it should not impact our ability to do what we are doing, doing it well and converting customers. If customers have a problem in understanding H1B, are you bringing people from abroad, obviously customers also will have a lot of scrutiny from the authorities, I think there we are very clear we stand up to stay, listen we employ local here, our business are on nearshore, this is our operating model, so you are not going to have any issues and all that, sentimentally will add up well, but will that give me more opportunities than the existing guys, I think in the line of work we are in, it is unlikely would be a truthful answer.

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

Dipesh Mehta: I have three questions. First just wanted to get some color about UK BFSI, because post Brexit, we last quarter hinted about more opportunity coming for us to grab, so in that how we are seeing that market panning out and if you can provide some deal win during the quarter, and how we are seeing the pricing because of the currency movement, whether clients are willing to give some kind of pricing to manage our margin or you are saying competition is playing out and we do not see that is easy for new deal site? Second question is about Sky deal involved some kind of investment, so if you can provide us what kind of investment envisaged in near future and how would be the accounting treatment for the same? Last question is about Q4 FY17 outlook, you suggested it is likely to be YOY flattish, does it imply you expect Q-o-Q kind of weakness and if yes, because Sky is likely to add incremental revenue despite that we are suggesting Q-o-Q decline, so if you can provide some detail?

Rajesh Subramaniam: Let me start with your fourth question, there is no Q-o-Q decline, there is an Q-o-Q increase. It is a Y-o-Y, because Q4 is seasonally our strongest quarter, so given Q4 is our strongest quarter, if you take a look at it, Q4 of last year, we did about Rs 76 crores in profit after tax, so that is what I am saying is likely to be closer to flattish. On a revenue line, we clearly will be above Q4 of last year, so that is one. Then on Sky, yes, the investments we have paid £12 million on contract signing in Q3 so that has been done, so that is the investment we have done which will get amortized over a period of 10 years over the life of the contract, so that is your third question. Then let me come to the first question which is Brexit and the impact, as I said, some very big transformational deals are at a very advanced stage of decisioning and we are positioned well but it has all been delayed, it is sitting in the pipeline where I have a Tier-I categorization on where this deals convert. This is in the banking and financial services segments. This is in the UK and one customer which straddles both UK and US, mother country being UK, so the deal pipeline as I said, we are sitting on certain deal decisions and if they fructify, materialize and come our way by Q1 of next fiscal, it can completely change the economics of our business from our guidance on revenues and profitability for next year, so again I do not want to say anything beyond because we do not control the outcomes at this point in time, all we do is put off the best solution and try and win business, so that is one. On the pricing environment, at this point in time, there are some contracts where we have an automatic price reset where the rupee depreciates it is passed on, if the rupee appreciates, we get some clawback. In some of our contracts, we have indexation benefits, which also adds things in as buffers, but new deals that we are pricing in right now obviously pricing is high and I would expect competition to do the same, but on my existing stock of business that I currently have luckily on the pound and covered to levels of between Rs 106 and Rs 110 for the next 24 months, so I have a lot more headroom on my current inventory of business which is offshore, so I do not need to ask for a price increase, but increase in volumes of existing lines of business is something that we are seeking for more flexibility either in pricing or the way we deliver it where we can measure it on outcomes where it is not predicated on input, where I can deliver a certain level of margins for the company. US, we do not have this challenges given there, the exchange rate regime has largely been stable with an upward bias between Rs. 66 and Rs. 68.

Dipesh Mehta: Just on Q4, you are suggesting, flattish you said for profit not for the revenue?

Rajesh Subramaniam: Not for revenue line.

Dipesh Mehta: How one should look our margin profile for because if I adjust for the hedges line, because I think other operating income consist of two things, one is grant related thing and second is foreign exchange fluctuation on our hedges?

Dinesh Jain: That is right.

Dipesh Mehta: Now if I adjust for that item presuming largely it is towards FOREX guide, our margin has dipped significantly, last year we were around 11%, this quarter is around 9.5% adjusted for this hedge gain and loss?

Dinesh Jain: Why you need to hedge gain, that is operating income. It has always been in my plan and it is always part of mine because this is where I am realizing myself, it is not coming in a self-line, it is coming in other operating.

Dipesh Mehta: I think previous participant also tried to get sense about the operating expenses increase, the increase in this quarter is operating expenses, it is almost 18% if I look at YOY kind of thing, so if you can provide some color, what is driving this kind of increase there?

Dinesh Jain: It is also along with the revenue, as the revenue is growing, we have added two more SEZ which talks about the last time I have, we have added two SEZ in order to normalize and get the tax benefit on that and ISGN acquisition which is part of that whole thing.

Rajesh Subramaniam: ISGN was not there last year, this year ISGN is integrated.

Dipesh Mehta: Why the question was, quarter-on-quarter our revenue is largely flattish, but this item again inch up 6.5%?

Dinesh Jain: That is true, that is the place the margin has come down because you have the cost structure remains, so Rajesh talked about three line items.

Dipesh Mehta: There is no one-off kind of thing, it is likely to be sticky kind of thing.

Dinesh Jain: It is not one-off any item in this one which have been added this one, it is more of being in a normal.

Rajesh Subramaniam: Basically in the mortgage business if my volume comes down, my ability to react because it is a high domain-driven integrated process, the ability for me to create the transition of employee takes a little more time, so what we saw volume decline in November and December, we are going to see the employee takeout happen in January, so as I said whatever you see quarter-on-quarter is largely because of what has happened in the domestic business and in the mortgages business.

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

Ruchi Burde: I wanted to check, this mortgage business currently how much it accounts for our total revenue?

Rajesh Subramaniam: The mortgage business would probably be about 6-7% of our overall revenues.

Ruchi Burde: Secondly, this quarter as you explained that some part of the weakness in margin was because of the lower profitability of the mortgage business, now going ahead, company plans to diversify the base and invest in the newer areas for the mortgage business, would it be safer to assume that going ahead drag on margin because of the mortgage business would continue?

Rajesh Subramaniam: Definitely for Q4, Q1 of next year will be lower than Q2 of this year, but towards the latter part of the Q1, you should see the margins coming into a superior trajectory to where the company overall margin is.

Ruchi Burde: If you could give us some quantitative number, how much drag because of the mortgage business in this particular quarter?

Rajesh Subramaniam: This particular quarter the reduction and profitability growth in mortgage business was close to about $800,000.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing remarks.

Rajesh Subramaniam: Thank you very much. Thanks everybody for your time. It has been a very interesting quarter for us with what is been happening in various constituents of the businesses we manage, but despite the challenging environment, I think we have done reasonably well with parts of our business doing well and parts of our business dragging us down, but overall as we look out into the horizon, while Q4 we might have some bombs on profitability because of the reasons we discussed, extremely positive about how FY18 is shaping up. Thank you very much. Thanks for your time.

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