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Q4 and FY2019 Earnings Call Transcript - May 06, 2019

CORPORATE PARTICIPANTS

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Mr. Dinesh Jain - President and Chief Financial Officer

Mr. Ankur Maheshwari - Head Corporate Planning & Investor Relations

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Firstsource Solutions Limited Q4 FY19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode 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 an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Ankur Maheshwari from Firstsource Solutions Limited. Thank you, and over to you sir.

Ankur Maheshwari: Thanks, Ali. Welcome, everyone and thank you for joining us for the Quarter and Year-ended March 31, 2019 Earnings Call for Firstsource. Please note that the 'Results', 'Fact Sheet' and the 'Presentation' have been mailed to you and you can also view this on our website, www.firstsource.com.

To take us through the results and to answer your questions, we have with us today Mr. Rajesh Subramaniam – M.D. and CEO; and Mr. Dinesh Jain -- CFO. We will be starting this call with a brief presentation providing an overview of the company's performance, followed by Q&A session.

Before we begin the call, please note that some of the matters we will discuss on this call including a business outlook are forward-looking and as such are subject to known and unknown risks. These uncertainties and risks are included, but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent annual reports that are available on our website.

With that said, I turn the call over to Mr. Rajesh Subramaniam, our M.D. and CEO.

Rajesh Subramaniam: Thank you. Hello, everybody. Thanks for your time today. I will quickly take you through the results and then open it up for questions thereafter.

For Q4 FY'19, our revenues came in at Rs.967.2 crores compared to Rs.985.2 crores in Q3 of FY'19 and Rs.897.3 crores in the same period last year. While we demonstrated 1.8% degrowth in rupee terms QoQ, it was a growth of 0.7% in constant currency. Similarly, year-on-year, our growth is 7.8% in rupee terms and 3.8% in constant currency terms. EBITDA for Q4 came in at Rs.138.4 crores or 14.3% of revenues, sequentially higher by Rs.2.3 crores or 1.7% growth and a margin expansion of 50 basis points. YoY, we are higher by Rs.5.9 crores or 4.5% of growth, margin reduction of 50 basis points. Operating EBIT came in, in Q4 at Rs.119.5 crores or 12.4% of revenues, sequentially higher by Rs.2.4 crores or 2.1% growth, margin expansion of 50 basis points, YoY higher by Rs.4.2 crores or 3.6% growth, margin reduction of 50 basis points. Profit after tax in Q4 came in at Rs.98.2 crores or 10.2% of revenues, sequentially higher by Rs.10 lakhs or 0.1% growth, margin expansion of 20 basis points, YoY higher by Rs.5.4 crores or 5.8% growth, margin reduction of 20 basis points.

We made a one-time non-recurring investment of Rs.8.75 crores towards an industry initiative on training and upskilling, which we made in Q4 FY19. Normalizing for this, Q4 profitability growth rates would be higher by 6.4% to 9.5%, and the margin expansion YoY would have been 90 basis points right from EBITDA to PAT. So our margin expansion at PAT level would have been 70 basis points instead of 20 basis points reduction. Similarly, EBIT would have been 40 basis points improvement, and then EBITDA would have been 40 basis point improvement. This is one-time. Cash and cash equivalents as at March 31st 2019 are Rs.169.1 crores Vs Rs.99.8 crores as of December 31st. The Board has proposed a final dividend of Rs.2 per share subject to shareholder approval.

Taking you to the FY'19 Executive Summary, FY'19 revenues at Rs.3,826.3 crores compared to Rs.3,535.2 crores in FY'18, YoY growth of 8.2% in rupee terms, growth of 2% in constant currency terms. But if you pro forma out the ABU business, which we sold in August last year, then YoY growth of 9.9% in rupee terms and growth of 5% on constant currency terms. EBITDA for FY'19, Rs.535.4 crores or 14% of revenues, YoY higher by Rs.76.5 crores or 16.7% growth, margin expansion of 1%. Operating EBIT of Rs.461 crores or 12% of revenues, YoY higher by Rs.68 crores or 17.3% growth, margin expansion of 0.9%. Profit after tax Rs.377.8 crores or 9.9% of revenues, YoY by Rs.51.2 crores or 15.7% growth, margin expansion of 60 basis points. Normalizing for the deferred tax credit in FY'18 of Rs.24.1 crores, YoY number would have been higher at an operating level by Rs.75.3 crores or 24.9% growth and margin expansion of 1.3%. To this number, if you normalize the one-time investment of Rs.8.75 crores towards the skilling and upskilling made in Q4, the profitability growth rate would be higher by 1.9% to 2.7% and margin expansion of further 23 basis points from EBITDA to PAT, i.e., the PAT margin expansion would have been 1.53%, and EBIT would have been 1.13%, and similarly, EBITDA would have been up by 1.23% YoY.

Going to the next slide, this is a tabular representation of summary which I discussed both on the quarter basis and on YoY basis. No specific call-outs here. The only thing that you will notice is the interest costs have been normalized over a period of time, keeping in line with our long-term debt reduction. Any interest cost today is for short-term debt is working capital debt, where we see spikes from time-to-time depending on the billing and collection cycle, but apart from that, no specific call-outs on this table.

Other Highlights: Headcount of 18,712 employees as on March 31. 8,968 in India, 9,744 based outside of India, net addition of 117 employees in Q4.

Attrition Onshore: US and Europe, 43% compared to 45.8% in Q3. This is for tenure of greater than six months. Offshore India and Philippines 41.5% compared to 39.3%, but the last statistic which is something we started reporting last quarter is early-stage attrition is still high at 70.3% compared to 83.4% in Q3 FY19 and largely this early-stage attrition is what we see in the UK, which had a direct impact on our ability to hire to deliver the requisite business volumes, committed pipelines.

On the FX hedges, outstanding hedges are at US$57 million and £95 million. Next 12-months, 83% coverage at Rs.70.4 levels for the dollar, 81% coverage for the pound at Rs.99.6 levels and 51% coverage for the pound at PHP 72.0 levels. For the forward 13 to 24-months from there, 50% coverage of the USD at Rs.76.5 levels and 71% coverage of the pound at Rs.102.5 levels. Post 24-months, 88% coverage for the pound at Rs.111.4 levels.

Just to take you quickly to the Q4 revenue snapshot composition, US continues to be the predominant geography from a revenue contribution perspective at 55.3%, UK at 43.6%, and India we have one small banking contract at 1.1%.

From a vertical perspective, BFSI has shown significant growth on the back of growth you have seen in mortgages and in UK Banking and Collections of course at 36.8%; Telecoms & Media at 27.5%; and Healthcare at 33.3%.

From a delivery perspective, 81.5% onshore, 18.5% offshore. From a segment perspective, Customer Interaction Management Services at 56.2%, consistent with the prior period quarter; Healthcare at 33.4%; and Collections at 10.4%, the delta in Collections reflected by the seasonality. Q3 and Q4 top customer pretty stable, 24.6%, top customer; 42.3% top-5 customer.

If we take page #6, if we take a look at it on an annual basis, very, very consistent; USA continues to be the largest geography at 55% and UK at 44%.

From a vertical contribution perspective, again, very similar trends; Banking is the largest vertical at 36%, which was the smallest vertical last year at 29.2%. So you can see the significant momentum, you have seen in the BFSI vertical, which we expect to continue. Telecoms & Media at 28%, combination of some of the churn you have seen at the top client and some of the residual telco clients that have separated with us is reflecting in the reduction in the Telecoms & Media vertical and Healthcare at 34.3% reduction on the back of some of the volume compressions we have seen in the Healthcare payer segment. Provider segment continues to grow very well. The payer segment continues to face some headwinds which is reflected in the year-end numbers.

Revenue per delivery, 80% - 20% between onshore, offshore. Revenue per segmentation, CIMS at 56%, Healthcare at 35% and Collections at 9%. Top client 24.5%; 41.4%, top 5 clients.

Business Outlook: As I have mentioned, BFSI vertical, Mortgages, Collections and BFSI CM in the UK continue to be the growth drivers, will continue to drive growth in FY20. Healthcare Provider has had an outstanding year in terms of new sales, and a lot of the sales has been around eligibility services, around some of the Digital arrowheads eligibility services. The time to conversion to cash will be evident in FY20. So that is expected to provide a significant impetus to the Healthcare vertical growth. Headwinds in the payer business will continue, and this business will degrow in FY20 from FY19. The business is being restructured to drive higher levels of profitability and unlock investment dollars in creating intelligent automation tools to drive deeper engagement with clients and client acquisition strategies and the work we do around claims and claims adjudication.

Digital revenues is again the first time we are reporting this, digital revenues which were 9% in FY19; this 9% was 4.5% in FY18, and we expect it to be 13-15% of our revenues in FY'20. Clearly, we are stepping up our game around intelligent automation, around AI-driven analytics with our clients, and the results will be evident both from driving margin expansion and increasing wallet share with our existing clients and obviously helping us acquire new clients across the spectrum of industries that we operate in.

On the consult side, Brexit continues to be delayed. The only downside at this point in time we see is that it clearly is affecting our supply chain especially in relation to availability of workforce in the UK. I think we saw that in Q3, we saw that in Q4, and obviously, seemingly a big population is making choices to go work elsewhere in Europe compared to coming into the UK, which obviously affects our supply chain also. So, we are figuring out strategies of how we do higher levels of productivity, better strategy and how we drive lower levels of attrition, which will enable us to deliver the same volumes with lesser headcount and then try and create different strategies in talent acquisition and training to cater to the growth which is more transformation-led going forward. So again, we are not completely out of the woods here, but I believe the worst is behind us.

For FY'20, at this point in time, this is some that we have in the pipeline to the deals that we have signed up, revenue growth likely to be 7-9% in constant currency and we clearly see a margin expansion of 50 to 75 basis points going forward.

So overall, we are feeling pretty positive about FY'20. Q1 will be soft, Q1 is seasonally weak quarter given the fall off from Q4, but I think the levers of the businesses that we believe are going to drive the company forward and the quality of revenues and earnings that we did see will clearly be evident.

So that is the summation I had on the business outlook. At this point in time, I am more than happy to open it up to the floor for questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Rajesh, just a quick question or request for an update really on the growth outlook. So obviously, it is stellar margin performance this quarter, and I am curious to get your thoughts on the extent to which this kind of margin can be a run rate margin and what the factors are that have driven the margin this high, it looks like there has been a shift in the onshore-offshore mix and I am guessing that has something to do with optimizing around the fact that the UK workforce availability is not what it used to be, but would be good if you could confirm that? And secondly, on the growth front, we did about 4% in constant currency this quarter. You are guiding towards 7-9%, given all the work force constraints we have in the UK, the good news it appears to me that hard Brexit is off the table, but it may be some time before we figure out what variant of a soft Brexit will come up and what the immigration impact of that would be, which means that the uncertainty of the UK labor market could last longer. Given that, that is likely to be the case, say for most of FY'20, are you still confident you can hit the 7-9% growth rate that you are guiding to?

Rajesh Subramaniam: Excellent question, Pavan. So two, three key elements to this -- Healthcare Provider is going to see a very nice uptick in growth, and that is all onshore, that is all US, and that is on the back of almost $22 million of ACV sales that we made last year, lot of which we start converting into revenues over the next 12 to 18 months, plus obviously new sales this year will kick in, provider really is looking very good. The Mortgages business in the US and in India is looking good. We have added seven new logos last year which continue to kick in and drive revenues and the Mortgage business is giving us a little bit of an impetus on our offshore growth also which helps in our margin delivery, so the Mortgage is looking good. Payer is going to shrink; Payer businesses from FY'19 to FY'20 will shrink by about 7-8%. So at a portfolio level of Healthcare, there will be net growth, but it is going to be middle single-digits growth. Collections is going to have an outstanding year. Collections, we have introduced digital collections tool, it is called the "Digital Collector", which basically is ensuring we are driving rapid consolidation of some of the partners that compete against us with the client sets we have where we were viewed as the top 10 credit card issuers. Now just to give you context what the Digital Collections tool does. We price on an outcome basis. We make money when we collect the charged-off debt. So a collector usually collects only from a high balance account. I mean if he or she sees the debt balance of a certain amount outstanding, and use the analytics to figure out the ability to pay basis the usual analytics we use to figure out past history, track record and propensity and ability to pay, they go after such accounts where it can convert to cash and then we keep a percentage of it. But with the Digital Collections tool, we are now able to carpet bomb at the lower end of the pyramid, the small balances, where an artificial intelligence based tool is able to go and interact with such defaulters and collect money. The cost of this tool is practically zero, its license fee of some of off-the-shelf technologies which are sewn together and then the business rules of collections are written by us and it brings in dollars which convert into revenues and also top to the bottom line. So the Collections business probably is going to be the fastest growing segment within our portfolio of businesses next year, probably growing YoY in excess of 25%, 30%. Then comes the UK market, the Customer Interaction Management services business, where the center of gravity, the UK, India and Philippines. Here, your points are absolutely valid. At this point in time we know we have internally budgeted the growth rate of about 8-9% but that is also on the back of signed deals that we have for offshore businesses. So today we have some of the UK clients that have signed up to significant ramps both in India and in Philippines on the back of all the challenges that we spoke about as what is happening in the UK, because, a) at one level you have full employment, you are definitely going to see tendency of inflationary pressures, at the same time, you have a labor pool shortage, which means labor rates are also going to be shooting up. So, it is a little bit of a very funny situation, where we seem to be getting hit on all sides and the mobility of labor is definitely strong, I mean, the Romanians and the Polish and the Lithuanians and 23 other countries, if they believe they want to go to UK, they probably might be making decisions of going to Germany or France or Italy or anywhere else. So I do not know, I mean, I think there has been an impact, and I do not know even if there is a soft Brexit, I am not sure what the labor workforce policies are likely to look at. Definitely there will be constraints on work visas and stuff like that for people that

are looking for jobs and the kind of employment opportunities that we would be offering. So UK onshore business, I definitely see some softening, but offshore growth, there clearly will be on offset, we have seen it with the one banking client, one utility client and our media client is extremely happy with the scores we are generating in Mumbai and Bangalore and it is likely to grow. So yes, exactly what you mentioned. I am extremely confident of collections, mortgages provider. I know there is a degrowth in payer in the UK market, which is roughly 45% of our revenues. We have a more modest growth target out there, but we are confident we will be able to achieve it on the back of offshoring. And the combination of off-shoring and the combination of growth in provider, we generate superior margins and the Digital Collections tool that we spoke about in the Collections business, combination of these three is going to aid in our continued margin expansion.

Pavan Ahluwalia: I just actually one follow-up to what you said, which is, is it the case that clients have taken a little bit longer to get comfortable with being serviced from offshore? So in hindsight, and hindsight is 2020 right if we gone to them in March to June of last year and said, Look, the UK labor market is tightening, should we do some of this offshore, was it the case at that point there was less appetite to do it, but as the year rolled on, you get into November, December, they were more willing to say, "Okay, fine. I would rather you get it from offshore than suck up both kind of high attrition and higher labor costs."

Rajesh Subramaniam: No, I think clients fundamentally, they are very-very honest, they just did not plan for a scenario of a hard Brexit, they never saw this hard Brexit scenario, and they have absolutely no contingency plan, I mean, everybody had planned, first, Brexit was a shock; second, figuring out the impact of Brexit and created its own sets of problems for us from decision-making, but then we cross over that hump and it was expected for an orderly Brexit. Then an orderly Brexit came under scrutiny in the middle of last quarter Q3 and of course continuing in Q4. At that point in time is when the panic stations of how do you take cost out of the business. It became more a cost initiative rather than a transformation initiative at that point in time which then saw the impetus for offshore. Would we have predicated this 12 months back, saying something like this would happen? Very difficult because they themselves their own internal think tank had not planned for crashing out of the EU without a deal.

Moderator: Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: What is your outlook in terms of the CAPEX and the tax rate for the next year?

Dinesh Jain: CAPEX normally, we do around $10-12 million yearly. Tax rate we expect to be between 16-18%

Princy Bhansali: There is something reclassification in your Collections business. Like what is the impact of that in 1Q and what is that reclassification basically?

Dinesh Jain: Those are between the business units. So that is also reflecting the current year and previous year number. Basically, the Collections business we are keeping, and Healthcare side, that is just shifting from one to another, but it is reclassed for the past year.

Princy Bhansali: So like what shall be the impact on 1Q number?

Dinesh Jain: There would not be any impact because the businesses remain flat in both the periods, especially on that collections side of the business which will move between the other businesses, there is no impact of that to any of our business.

Princy Bhansali: So I can assume that it will drop a little bit?

Rajesh Subramaniam: The Collections business as a business unit will drop in Q1 over Q4. That is systemic to the industry dynamics of the seasonality uplift they have in Q4. So Q1 for Collections, as a view will be lower compared to Q4. But in our Q1, the impact of the seasonality it has on growth historically that we have seen, that would be a lot less in our Q1 on the back of all the good things that I explained to you on the uplift we see in the Collections business. So there is nothing to do with reclass. Healthcare Collections historically used to be a part of the management of collections BU, but we saw significant synergy in Healthcare collections to be aligned with Healthcare receivables management because collections and receivables management were two sides to the same coin. So the reason why we have now taken that out is essentially because of the synergies of the business. The Collections business that you see which we are representing today is driven predominantly by banking and financial services and has got some student loan collections here.

Princy Bhansali: What is the item that is buyback by FBS Sri Lanka?

Dinesh Jain: So we have a Sri Lanka JV, which operations have been closed two years before, so there is money lying there, so through buyback, we have taken money back.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Couple of questions: First, about the Q4, if we look at the end of Q3, management indicated about 3 to 4 percentage kind of sequential growth possible in Q4, it seems to be lower. So if you can help us understand what explain that weakness and what we anticipate sometime in February? Second thing on the next year guidance, considering last few quarters kind of weakness, which we observe in particularly UK staffing related challenges and likely weakness in Q1 as well, what gives us confidence about reaching 7 to 9 percentage growth rate, and if you can provide some more data which gives you confidence about it, that will be very helpful for us to understand about trajectory of growth rate and what gives us confidence kind of thing?

Rajesh Subramaniam: The Q4, again, the early attrition at (+70%) compared to 80% plus saw us leave revenues on the table. We left revenues on the table with our largest utility client and our largest media client, both we left revenues. We can come back to you and tell you the percentage growth impact, the revenue numbers I know but the growth impact we can give it to you before we end this call. The second element is one of our recoveries client in the US which was supposed to go live in November, has gone live in end of April. So that was a pretty big deal that we have signed up. We will also drive growth in our Collections business, and it has gone live. The good thing is it is not in limbo. Contracts are finally being signed, and we have rebadged, we have taken over a bunch of people and we are driving the agenda. So that delay of a quarter which is in the US plus the inability to hire, the continuing pressure that we saw, at least slightly reduced compared to Q3, but still definitely did cost us some revenues. These two have been the larger elements. The third element is in our Payer business, we have seen volume softness. Healthcare Payer business today, some of the clients that we worked on, the top one or second, but the second rung of clients, the ability to predict volumes and match it with the workforce management, it used to be a science, but now it is not a science, it is not even an art, there are challenges for us in fixing the headcount with the volume. So what is happening is lot of headcount is turning into fixed costs out there and the revenues are not coming in. And we have seen the challenge, and we will continue to see the challenge going in the Payer business into FY20. Similarly, the maturity of the sale, as I said, we sold over $22 million of business, 70% weighted towards eligibility, 30% towards receivables management. Receivable management converts to cash quickly. From the time you sell and you execute, it converts to cash. Eligibility services require longer, getting up the curve, productivity cycle before the inventory starts converting to cash that we pass back to the hospital. So given the skew in the sales profile, there has been a delay in converting to revenues in Q4 that we expected, and that is my context. I think that in FY'20, some of the deals that we sold in FY'19 in the Provider business provides significant tailwinds in driving growth, in converting to cash. So it is basically delayed growth, but it is definitely growth that will come. So combination of all these factors and a small factor was also the US government shutdown, while the collections seasonality is clearly evident that we did do well, but we could have done better if the government shutdown was not in effect till the end of Jan. So there has been a delay in sending tax refunds out. There has been a delay for the IRS to ramp up to the extent they would have if they had not gone on, the US government had not shut down. So that also had a small impact. But we will see some benefits of that accruing in Q1 because it is a delay again, it is not something which is lost, it is something which has been deferred. So these are the multitude of factors which has ensured that some of the growth rates that we saw we will achieve in Q4, we did fructify, but going forward, we definitely are confident. Apart from Pavan's question, that given the labor market, given the dynamics of Brexit, it is not that we are finding 20% growth rate hopes in the UK in the same business and while rest of the businesses remain flat, and we are talking about this number. Mortgages is going to grow significantly, Collections is going to grow significantly, Provider is going to grow significantly. So the balance of the growth rates that are required in the UK will be absorbed to deliver the 7-9% despite 7-8% degrowth in the Payer business.

Dipesh Mehta: Just to understand the seasonality in Collections, which is likely to impact Q1 performance., that seasonality was even there in Q1 of last year, right. So from YoY perspective, why we expect Q1 to be weak in that case?

Rajesh Subramaniam: No, I am not saying Q1-to-Q1 is going to be weak. I am saying Q4-to-Q1 is going to be weak.

Dipesh Mehta: So our Q1 performance would broadly reflect the full year guidance kind of thing, 7-9% what we anticipate for the year?

Rajesh Subramaniam: No, it will be a step up again. So Q1 will be a growth over Q1 of last year. We would not be at 7-9% growth rate in Q1. If I am at 7-9% growth rate in Q1, I will end up probably at 11-12% growth for the full year.

Dipesh Mehta: Rajesh, is it possible to provide some deal intake and pipeline kind of data for FY19, and if you can give some comparison vis-à-vis '18 kind of number?

Rajesh Subramaniam: Absolutely, all the data we presented to the board. Extracts of that we can more than happy to discuss. Why do you not get in touch with Ankur and he will show you all the data.

Dipesh Mehta: Can you provide outlook for top client and how you expect it to play out?

Rajesh Subramaniam: There will be some rebalancing in the top client towards the middle to latter part of the year. There will be businesses that we will grow in the services estate and in NOWTV. There will be businesses around sales and retention that we will lose that will go back to the client. So, all the guidance that I have given you is after taking into consideration the rebalancing that we see within the client. The acquirer of the client is also a customer of ours and they continue to grow and grow their offshore. So overall we are in a good place, we are a strategic partner, we are the only partner for the lines of work that we do, but there will be some rebalancing, and there will be some timing mismatches which will happen, but overall the trajectory is positive.

Dipesh Mehta: So just to understand simple, this year, it seems to be double-digit decline, so next year you expect it to be similar way or how one should look at it?

Rajesh Subramaniam: When you say double-digit, we have reduced by about $14-15 million. So that is the reduction that we have seen. If you go back to my earlier transcripts, you will see that the thesis of the consolidation was to drive 38-40% deflection over three-to-four period, and that is exactly what has been happening. But the good thing is there are other parts of the business which are growing; the offshore estate is growing with this business, and we are getting deeper into the digital engagement with this client. So while there is a reduction which is expected, the future growth driver in this business is going to come from two vectors – it is going to come from their mobile business, and it is going to come from their NOWTV, which "Pay as Use" business. We are the only provider for NOWTV also and that business is expected to grow significantly. On the mobile business, they plan to do it in-house, they will keep it in-house in their captive center, and if there is any overflow required, we will support them. The core businesses of our largest clients are stable to mature and are not growing in the growth rate that we saw three, four years back. So again, it is not a simple tryst to say that they will reduce by 10 million, 15 million, 5 million, 7 million, there will be a reduction, but there will be growth also. So how do these two vectors play themselves out is something we have a fair idea. We know that in the latter part of the year, we will see reduction in the top client portfolio, but we will then see growth coming in basis the deals that are in the pipeline that are going to be signed.

Moderator: Thank you. The next question is from the line of Anant Gotha, an individual investor.

Anant Gotha: I have a question on your dividend. So this year you announced Rs.2 per share dividend. Can we expect this sort of level to continue to next year, can we expect some increase in this also?

Rajesh Subramaniam: Yes, I think our policy has been between 35% to 45% payout. So last year, we did about 35%, 37%, this year at Rs.2, we are closer to about 42%, 44%. So yes, absolutely. I think there is no reason to believe otherwise. Unless there is strategic acquisition that requires an outlay of capital, there is no reason to believe that the dividend policy will change.

Anant Gotha: In the US, the Trump administration started talking about doing away with Obamacare in entirety again. So what is our outlook on that -- will that affect us in a negative manner or are we hedged for that sort of a thing?

Rajesh Subramaniam: I think last time they tried to repeal it, it failed, nothing happened. I am not too worried because I think some of the developments and some of the engagements that Obamacare had given are so deep. It is not going to be easy doing away with Obamacare. It will completely cause chaos in their budgetary deficit. So Trump tried it once. It was repealed, did not get bipartisan support. Now tries it again. What happens? We think of it as a non-issue at this point in time.

Moderator: Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda. Please go ahead.

Ruchi Burde: My first question is regarding the Digital. So 9% number appears a bit low considering that our service footprint would be largely related to the customer engagement especially in the backdrop that when NASSCOM calls about one-fifth of the industry revenue to be digital, even some of the larger IT services players that we see support about one-third of revenue coming from digital. So, I am just curious to know, is it a difference of definition or something else why the digital proportion of revenue at 9% was low?

Rajesh Subramaniam: BPM businesses, take a look at some of the big boys, EXL, WNL, they are anywhere between 20%, 25%. So we have to begin our journey. As you know, we have been repaying significant amount of debt. So if you take a look at it last five years, we repaid about $350 million between debt and interest. All the capital which would have gone into acquisition and investments, this is when our investment journey started only about year and a half back. So within the BPM segment, our journey to 15% and how we then catch up with some of the leaders will be clearly evident. Secondly, IT industry, lot of their digital engagements are project-based. We do not do project based. Ours is long-term annuity-based contracts. The game is more on domain. Here it is getting to know our customers business deeper is more important than knowing how I can drive automation and intelligent automation, right? That is the truth because I cannot write code if I do not understand my customer's business, and it is not a horizontal play, it is a completely verticalized play in our business. We set a path of getting to 20%, 25% of transformation digital-led revenues over the next few years. It would be accelerated if there is an acquisition which gets us there. But if I take a look at our organic footprint, we are saying 13-15% next year and then possibly we will get to that 20%, 25% mark in the year after. And all that it does is, it just takes our margin profile up significantly. Despite being 80% onshore, we are guiding to 15% EBITDA margin profile. You can imagine that if you have 80% offshore and 20%, and if you are interested in margin profile, our margin profile would have been closer to 20-23% on the back of the digital platform that we currently operate on. So that is why. First, the entire digital spectrum and IT is very different compared to BPM. And BPM is a function of domain and domain augmented by digitalization especially in automation, AI and analytics.

Ruchi Burde: Second question I had now was regarding the training and upskilling expenses that you guys talked about. Could you give us more color on the scope and the coverage of the activity that you guys conducted?

Rajesh Subramaniam: We did an industry-wide study to figure out the extent of workforce that will get impacted in the new digital paradigm over the next three to five years. We have figured out who are the people that cannot be retrained, we figured out the level of people that can be trained and there will be one category of people that will easily move into the digital paradigm. So, we are trying to create those investments so that we are ready with the workforce that is able to leverage some of these requirements in the future. So there is a lot of history behind this. I am more than happy to take this offline and explain to you the work we have done.

Moderator: Thank you. The next question is from the line of Akshay Goswami from SBI Securities. Please go ahead.

Akshay Goswami: So can you provide any margin guidance for the medium-term? And if not, do you have any internal targets that you have around mid-teens or 20%?

Rajesh Subramaniam: Yes, absolutely. I think we have guided to 50 to 75 basis points improvement in margin, there could be some upward bias there. I think probably getting to 17-18% EBITDA margin over the next few years is something which we can definitely strive on the back of the transformation growth and if we get some help with revived offshore growth which we are seeing. Next year we will see our offshore footprint improve compared to the previous year.

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

Rajesh Subramaniam: It has been a mixed bag year. We started the year very strong, but we got hit with nuances which were far beyond our control, delayed sales cycle, impact of Brexit, Healthcare Payer business underperforming, everything, anyway, but such is life. So 5% constant currency growth is a little disappointing compared to what we thought we would be at which was 7-9% that we guided last year, but this year, it is looking good and we are on a far solid footing. Margin expansion will continue, and our dividend payouts, no reason to believe why we cannot maintain/increase going forward. So appreciate your time. And if you have any other questions, follow-up questions, please do reach out to Ankur Maheshwari, our Head of Investor Relations, and he will be more than happy to take your questions. Thank you very much.

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