Q1 FY2020 Earnings Call Transcript - August 02, 2019

CORPORATE PARTICIPANTS

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Mr. Dinesh Jain - President and Chief Financial Officer

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Firstsource Solutions Limited Q1 FY'20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. 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 ended June 30, 2019 earnings call for Firstsource.

To take us through the results and to answer your queries, we have with us today, Mr. Vipul Khanna, who has joined us as our M.D. 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 the Q&A session. Please note the 'Results', the 'Fact Sheet' and the 'Presentation' have been e-mailed to you and you can also view this on our website, www.firstsource.com.

Before we begin the call, do note that some of the matters we will discuss on this call including our business outlook are forward-looking and as such are subject to known and unknown risks. These uncertainties and the 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 now turn the call over to Mr. Vipul Khanna to begin the proceedings.

Vipul Khanna: Thanks, Ankur. Good Evening, everyone. Happy to be here. Happy to start to get connecting with you on this phone and subsequently. Very excited to be on Firstsource Solutions at this juncture of the company's evolution. I joined a few days ago. Today, was the first board meeting that I attended.

Quick two minutes about me: I spent most of my career in (BPO) - Business Process Services, Business Process Management or Digital Operations; spent early part of my career in the American Express captive in mid-90s; was part of the start-up team of eFunds, which built a pretty strong BPO business, and now it is part of Fidelity National; then I was hired as the CEO for the UBS captive in 2005 and then post financial crisis that captive got sold off to Cognizant Technologies and I joined Cognizant for their BPO business which we called as the operations. I spent my last 9 -9.5 years building that small practice into a global top 5 BPO business across industry segments and using lot of digital assets and technologies. And at this stage of my career, very excited to join Firstsource, very solid portfolio of assets, very talented people and I look forward to working with this team, with this business as well as with all of you. For the results for the quarter gone by, I would request Dinesh to take us through and we will come back for questions.

Dinesh Jain: Hi, everyone. Good evening. I think the 'Fact Sheet' and 'Other Financials' already with you but I will just take you through one more time.

Revenue for Q1 FY'20 is at Rs.9,798 million when compared to Q4 of FY'19 of Rs.9,672 million and Q1 of Rs.9,191 million which represents YoY growth in the rupee term of 6.6% while growth of 5.2% in constant currency; QoQ also grown by 1.3% in rupee term and growth of 2% in constant currency. I think most of you will be aware during this quarter we got a new accounting standard called AS116 which have got implemented by most of the companies, but in order to really showcase to you the apple-to-apple comparison, we will be taking you through the normalized EBITDA although the financials will have the adjusted EBITDA after AS116. Our Q1 EBITDA is at Rs.1,373 million which is 14% of the revenue which represents QoQ lower by 11.8 million or 0.8% degrowth, margin reduction of 0.3%, YoY we still grown by 7.2% which represents Rs. 92 million, margin expansion of 10 basis points. If we look at reported EBITDA, it will be Rs.1,657 million or 16.9% of the revenue. In the similar way, operating EBIT is at Rs.1,175 million or 12% of the revenue which represents QoQ lower by Rs.20 million or 1.7% degrowth and margin reduction of 0.4%, YoY we grown by 6.7% with the rupee value of Rs.73 million. Margin remained flat on YoY. And here also, as per the reported EBIT, it will be Rs.1,217 million which is 12.7% of the revenue. PAT performance, we are at Rs.912 million which is 9.3% of the revenue. QoQ were lower by Rs.71 million or 7.2% degrowth, margin reduction of 90 basis points, YoY higher by Rs.26 million or 2.9% growth, margin reduction of 0.3%. For the first time, we adopted IndAS 116. We do also have some charge, which is over and above the normalized one which is in this quarter around Rs.2.5 crores, which we have taken a hit. Cash and cash equivalents was at Rs 188.7 crore as of June 30th, 2019 as compared to Rs.169.1 crores as of March 31st, 2019 and when compared to Rs.99.8 crores as of December 31st 2018.

The next slide basically is more a tabular representation of the number, and where basically, we are talking a reported number. These are not comparable because Q4 is still going to report 14.3% EBITDA while as of today we are at 16.9%. But I think more representative number will be the PBT where Q4 was 11.5% with Rs.1,112 million and in Q1FY20 it is at Rs.1,069 million which is 10.9%. There are no other specific call out on this one. And I think we will continue to showcase the YoY performance on normalized basis for maybe probably another two more quarters. But I think next quarter onwards it will be normalized because the IndAS will have applicability in both the quarters.

Some other highlights for the quarter: Our headcount stands at 18,550 employees which is equally distributed between India and outside India; 9,305 employees in India while outside India 9,245 employees. Net reduction in this quarter is 162 employees. Attrition levels remains around the same level between 43% to 45%. Current quarter is slightly higher on onshore and offshore remain around 45%. I think we talked in the last quarter too about the challenges in the UK market especially due to the Brexit which is still hanging around and unemployment levels are lowest in many of the cities. So, I think that challenges remain, but still able to overcome by some percentage, but we are still seeing a challenge in that place.

Hedges position is still very strong. We have outstanding hedges of USD57 million and £100 million. Next 12-months, 87% coverage for USD at INR 70.3 level; 94% coverage for pound at INR 99.6 level and 40% coverage for GBP where PHP at 72 level. Next 13 to 24-months, we have 26% coverage for USD at INR 76.5 level and 82% coverage for pound at INR 102.5 level. Post 24-months, we only cover the pound portion which you all are aware of which is 85% coverage at INR 111.4 levels.

In the next slide we have different cuts of the revenue, where we look finally and also want to showcase to you guys. By Geography, still US remained the highest geography with 57% contribution to revenue; UK at 41.6%; and India and the rest of world at 1.4%. I think the growth which we have seen in the US market is getting driven through mortgage businesses due to the interest rate scenario which undergone change, origination business is really doing good part of it.

By vertical, BFSI still remain the largest vertical for us with 36.3% contribution. Telecom & Media which is mainly the Media is 27.3%; and Healthcare is 33.4%. Others is getting increase as we have Utility customer growing with us, which we talked in the last quarter too.

Revenue by delivery again offshore-onshore mix continue to be towards the onshore side. But we are seeing this quarter and I think as we talked in Q4 also that we are seeing some good growth on the offshore side finally after many years and that is getting represented in the Q1 where we are at 22% offshore and 77.5% on onshore which was 18.5% and 81.5% in Q4FY19.

Revenue by Segment: Customer Management is the largest segment for us with 55.5%, Healthcare remains the second one with 33.5% and Collection is at 11%. Top clients I think will remain around the same level; 24.5%-25% and the top-5 still represent around 41.2%.

Looking at next quarter on the outlook, we are looking that growth momentum continued driven by macro tailwinds coupled with new business wins. BFSI, US and UK, Healthcare Provider and Utilities to drive the growth for us. Surge in the refinance volume due to the interest rate I think Mortgage business continue to be doing good for us, at least for next two more quarters we can see the visibility. Offshore business, as I talked just now the growth, we are seeing from US as well as the UK customer, both sides. Pipeline across business is robust. Focus on long-term digital-led engagement continue, and we continue to focus on those engagements. Low on unemployment rate as of today in the US and UK, especially the UK is worrisome for us as of today although there are some positivity, we are seeing it but I think still challenging for us to hold the talent and actually continue to have a lower attrition rate. Revenue Growth Guidance: As we talked in the last quarter, I think rebalancing has taken place at the Sky account, 400 FTEs have been moved to in-house by the Sky which was the sell side of the operations, and we were hoping that by August we will have a Sky mobile account which will come back to us but I think Sky decided as of today not to take decision on that piece. By that scenario, still we have a good growth coming from our two, three big BFSI accounts in this quarter and we still hope to maintain our guidance at 7-9% in constant currency terms. Margin expansion although, this quarter is still lower and I think one of the reasons are the attrition which we talked in the UK market as well as I think the cost of growth in the mortgage and the collections side, two businesses, which we are talking as of today, growing with us, especially on the offshore side where cost of growth is hitting us which is a good problem to have because we can see the better margin come in Q2 and Q3. So, we are still keeping a margin expansion story of 50 to 75 basis with us.

With that, I will hand over to moderator to open up for the questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: What I am asking is with the change in management, what is the view of the new management in the sense, whether to maintain such kind of growth rates, would you like to use balance sheet, go for inorganic fill up gaps or you think it is important to deleverage and then strategically hold more cash on balance sheet and then focus on organic plan for growth penetration?

Dinesh Jain: Mohit, I think it is very initial as of today to really change the guidance and thoughts where we are as of today growing, but I think as we talked in the past that current year onwards we will have surplus cash availability and we are looking in areas where we need to grow differently. Digital is one of the areas which we talked in the past and I think the experience which Vipul is bringing on the table, we will open up for that investments for sure. But I think you have to wait for one more quarter probably when we will come back with a more detail where we are really going from the existing client base or a delivery location or a segment per se.

Mohit Jain: Organically, do you think like 5%, 7% which is doable for us?

Dinesh Jain: Absolutely, because as of today, all the pipeline which we are looking is all the organic growth, we are not talking inorganic in these parameters.

Mohit Jain: I was looking more from a three-year perspective. '20 guidance is absolutely clear because your existing clients will take you through. I was generally looking at industry outlook and your thoughts on the same.

Vipul Khanna: Mohit, this is Vipul. I just joined last week. I am kind of going around sort of different locations, getting to know the team, getting to understand our business. My initial impression is that we have a strong and interesting portfolio across customer management, healthcare, mortgage and collection sides in US and UK. All of these have headroom for growth. They are changing with digital with newer assets. I am very encouraged by the quality of digital assets we have, right, which kind of permeates the delivery that we do. Combining that and sort of macro room for growth in this industry, I think there is room for growth here. Then obviously, there are adjacent areas, right, are already swirling in our heads, just need to kind of put my head down over the next couple of months and work with the team to prioritize the areas. The intention is to grow and grow hopefully better than what we have done historically. And for that, the organic and inorganic investments are sort of game for the right areas of growth. So, I will leave it at that at this stage and then come back in the next few quarters.

Mohit Jain: There is some announcement regarding subsidiary. So, what is exactly happening there?

Dinesh Jain: There is intercompany debt between our US and UK subsidiaries and we felt there is no need to continue that debt between the two, it is not to the outside world but between the internal, surplus is in the UK while we have a cash shortage in the US. That is the debt lying on. So, we are just trying to convert that into capital. It is nearly not going to change any of the capital structure at the overall level, it just remains within the….

Mohit Jain: US is where cash will be injected by the parent company, is it?

Dinesh Jain: No, no, it is the UK which has injected the cash in the US, so we convert the debt to the equity. So, basically, now the India and the UK both will hold the US subsidiary, 15, 20% equity will be held by the UK subsidiary.

Mohit Jain: The debt for US entity will become zero after this?

Dinesh Jain: Absolutely because in the long-term if the investment has to go through in the US will be that geography. So, that is the reason you want to be. At least at a standalone US entity level, we want to have also a lower leverage. So, it was just intercompany debt which is better to capitalize it.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: First of all, I would like to have a clarification regarding the margin guidance which you have given. So, is it at the EBIT level or EBITDA level?

Ankur Maheshwari: It is EBITDA level, from a reported FY'19, we intend to grow 50-75 basis points in margin profile YoY. And this was before the IndAS adjustment. Post that obviously, the numbers would change, but this was on a normalized pre-IndAS statement.

Devanshu Bansal: So, that 50 to 75 basis improvement still remains on a normalized basis?

Ankur Maheshwari: That is right.

Devanshu Bansal: So, just to probe a little bit on the margins, our offshore mix has improved quite significantly in this quarter and still on a normalized basis excluding some Rs.9 crores investment which we made, our margins have declined; 130 bps QoQ. So, what could be the possible reason for this?

Dinesh Jain: Margin dropped, I said two reasons. The mortgage, which is growing due to the interest rate scenario, every month we are hiring 100 to 150 people for mortgages, we are also growing Utilities UK customer in India and Philippines, both the locations where the growth is coming. But approximately I can give you around $1-odd million investment as a cost of growth which as of today in this profit and loss account for Q1 as well as I talked about still operating challenges in the UK market which talk about the attrition and also there are some other pieces around. We see that we lost approx. $750,000 there too. I think the main two reasons which is one is a good reason to have, another is I think we are trying more and more to control it. I think that is what we are trying to do. Again, I think you must be aware that Q4 seasonally a strong quarter from the collection point which dropped down in Q1. So, I think that is also one of the reasons. But I think I have given you much more than the reasons which really dropped our margin here.

Devanshu Bansal: Growth outlook of 79% requires a strong CAG. Within the segments which we provide which segments are expected to drive this kind of a growth?

Dinesh Jain: I think the last quarter we also talked about where Collections is going to grow significantly higher in the normal, expecting at least 25%, 30% growth on the Collections portfolio. Mortgage has surprised us too. I think we did forecasted that the growth is going to come, but I think the way the interest rate have undergone, refinance market is just booming up again, we do see that, the good upside on that business too coming in the Q2 and Q3. Provider is doing really well. Payer, we already talked that we are not going to grow that business as of today, but I think they delivered significant numbers for Q1 although we are thinking that is going to degrow, but I think they delivered better numbers for us. Customer Management, as I talked about, in Q2 when we are going to have the sharp decline on account of one of the Sky business which they have taken in-house. But I think against that we are able to win lot of the other deals from the BFSI customer. So, I think all segments are going to be growing in a way we are looking it. But Mortgage and Collections is going to be a differential growth.

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

Deepesh Mehta: A couple of questions. The weakness in the UK market if I look at it and considering the fact we are seeing some growth in Utilities clients as well as top clients also showing some stability this quarter. If you can provide some perspective what is leading to weakness in the UK market and whether the high attrition which we are witnessing leading to again loss of business and volume for us?

Dinesh Jain: The UK market, you are right. I think the attrition level which were a challenge in the last quarter, we did lose a lot of money on the table. Current quarter, we have not lost the money on the table, but the cost is still the challenge because in order to deliver the similar volume, we may have to hire people if the attrition is much higher. The cost became a challenge, but volume softness we have not seen. So, I think UK is more challenged from a cost side than being the revenue side in this quarter at least and we do not see that happening. I think still recruiting the number of people what we require on date is not that 100%. We want to hire 100 people, probably end up with 80 or 90. So, still unemployment rate is higher being a challenging. But we are not seeing that we have lost significant revenue on the table this quarter.

Deepesh Mehta: If I look in terms of revenue performance, UK seems to have declined QoQ despite you are seeing significant trajectory of growth in your Utilities clients, stability in top clients. Whether there are some accounts where we are witnessing? If I couple it with the weakness which we are seeing in top-2 to 5, it seems to have some kind of weakness this quarter. So, whether it is kind of linked with this weakness in UK or if you can provide any more color?

Dinesh Jain: I think Utilities customer is growing in India and Philippines market. So, Utilities customer which we used to be and the UK is stable or slightly lower. But I think the growth in the Utilities is more on India and Philippines market. Some ramp-downs taken place in the managed services, but it is not that significant because the other growth have come. So, maybe slightly lower but we are not witnessing the lower side.

Ankur Maheshwari: Add to that it is also a function of the US market growing better than the UK market. So, the mortgage business, the collections if you take a look at sequentially, that has done phenomenally well for us. Similar is in the provider business as well. So, it is a combination of what Dinesh articulated, also the higher growth coming from the US as against UK in Q1.

Deepesh Mehta: Second question is about the digital business which last time we reported around 9 percentage of revenue in FY'19. Can you share some number around how it played out in Q1 and how you expect it to play out in FY'20 and maybe over medium term how you expect the trajectory of growth there?

Dinesh Jain: We talked about that we want to grow internally. We have put a target between 13-15% for the current year. Q1 we still come to at 10-10.5% and I think we will be able to achieve this 13-15% target which we are talking. These days there is no offering which will go to the customer which will not have digital as a component because I do not think you can sell the plain vanilla offerings as of today in the market. Vipul also have thought on that on how he sees the digital because coming from the portfolio which was, completely you can say the digital side of.

Vipul Khanna: Thematically, right, I think digital across customer management or newer ways of doing whether it is payer or provider or collections or for that matter even mortgage, I think that segment of the industry is growing faster than the traditional by all measures. If you look at the end user demand for digital services, digital experiences, digital processes, he is driving our clients to change the way they offer their core services to clients and how they service them. So, I think medium to long-term, it is a sort of big strategic opportunity. RPA: Besides infusing RPA in the services we provide to our clients and embedding that as part of our solution, if it is a custom solution. RPA services for clients' retail operations is a massive opportunity. If you look at the licensing offtake for the big automation platform, that is growing at a very rapid pace. And I think there is opportunity for the industry to build assessment and sort of automation services around it because we understand to our clients about how can we tell them to automate that. Similarly, if you look at the opportunity for the bond digital companies, right, the Fintech, Insuretech like any sector or OTP, they present significant opportunity because they come with bond digital processes, right, they are native to digital processes. So, those are sort of early areas that we want to explore and make sure that chunk of our growth in the future is coming from those. How do we tackle them? Which one we choose? It is something as I said earlier, we have to put some thought on where we prioritize and what will be our go-to-market approach for them.

Deepesh Mehta: And other question which I have about the margin outlook where we are expecting expansion to play out. It indicates considering the last year -- remaining quarter we have a reasonably good margin profile. So, if one needs to increase from full year perspective, your next nine months margin need to be substantially higher.

Dinesh Jain: Absolutely. I talked about cost of growth which will get normalized and which will have the better margin profile. As we are going to grow to digital side, if I will go to 13% everyone aware, the margin profiling is always superior than with the normal businesses are. So, we are very hopeful and we are targeting to achieve those numbers.

Deepesh Mehta: Vipul, just from a strategic perspective, what would be your focus and drive kind of thing, focus on driving a substantially higher revenue growth or you continue to focus on driving operating efficiency and margin and try to be within kind of thing rather than let us say 14 or 9 which earlier we used to operate?

Vipul Khanna: Look, I think in our business, we can never go away from operational excellence, right. That is kind of intrinsic part of our business because what we do for our clients is driving to start with cost efficiencies. And if you look at our clients, what is happening to a client. On the one hand, they are driving cost efficiencies in their traditional services or their traditional operating models, at the same time they are creating room themselves for investing in digital products or digital way of delivering their services. So, when we work with them, they will expect lower and lower sort of cost from an industry standpoint I am saying. And we have got to make sure that our costs are competitive to continue to play in the traditional segment. And slowly, as we build capabilities as they clarify their own digital stance in the market, our opportunity will be to partner with them, right, to co-create with them. And as that sort of shift happens, I think you will see higher margin profile coming through. But clearly where Firstsource stands today I think growth is an important aspect, the organization is in a solid footing, good portfolio, very tenured leadership team, pretty solid portfolio of digital assets. I think the growth is something that we want to drive hard while balancing with operational excellence to make sure that we are competitive in the market.

Deepesh Mehta: Last two data points; first is about expected tax rate, what do you expect, maybe Dinesh can help me on that part? And second thing is you indicated about Rs.2.5 crores some one-off. If you can provide some perspective what you refer to that?

Dinesh Jain: That was the IndAS the accounting treatment which the new standard has come. So, that has the additional charge for this quarter and probably another two quarters we will have a similar number. But going forward basis will reduce or it will equalize because first time adopt then you will have initially higher interest cost compared to the operating or rental charges you are taking, which is where the accounting standard has been. So, that is what the Rs.2.4, 2.5 crores I talked about. Tax rate I think range of 15-17% because I see that should be the range which is I think the first quarter also we are trending in.

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

Ruchi Burde: Vipul, what is your immediate plan of action over next few months before we start to ask you what are the strategic interventions or initiatives you plan to experiment with Firstsource?

Vipul Khanna: Thanks, Ruchi. That question has been on my mind. But look as I said I have started to spend some time with the teams. I was down in our US mortgage operations last week. This week has been primarily in Bangalore and Mumbai and then next week, I go on to meet our healthcare teams as well as our collections team and starting to meet customers after that. My focus if I could in the next sort of few weeks is all about listening and understanding both our people, our clients, our products and most importantly our culture. I think it is an intense business and operational business. In my experience, culture is very important. It acts as a great either an accelerator or decelerator depending on what it is. So, that is kind of at a principal level. Clearly, we are at a juncture where we are in a good place to kind of start to focus on growth and growth investments, right and I use the term investments generically, right. So, my priority would be to identify growth areas both in current portfolio, adjacent areas and newer areas and make sure we are making the right investments in the sales capacity and suctioning capacities to start driving that. Clearly, there will be a lag between sort of by the time we choose, we invest and we see the results, but that is kind of the primary focus of looking for immediate and medium-term growth opportunities either within the segments we play today as well as evaluating new segments that we want to go.

Ruchi Burde: My second question is for Dinesh. So, this quarter we have maintained our growth guidance unchanged. To reach to the midpoint of the guidance we require something like (+3%) over next three quarters and it is quite steep. In last 12-quarters, we did not have such a single quarter with more than 3% QoQ growth. So, I just want to understand, we are reiterating the guidance based on the concrete deals that we have in hand or we are counting on some pipeline to convert and then achieve the growth target?

Ankur Maheshwari: This is Ankur. It is going to be a combination of all of that as you just articulated. Coming into Q1, 2% sequential growth is on a back of seasonally strong Q4. Historically, if you take a look at what we have done, either been flattish or declining in Q1 from Q4. So, I think we are on a strong footing from start of the year perspective. Getting into Q2, Q3, there was very strong visibility in our mortgages, collections, provider businesses. We are seeing some good growth in BFSI customers that we have well secured, the ramps are on right now. Obviously, execution is something which is going to be critical and all the best minds in the business are looking at entering that business done. So, today, we are confident of meeting this band and if anything changes, you guys will be the first to know.

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

Manik Taneja: Just trying to prod you a little bit further on the sustainable margins of your profile of business. So, what we have seen in case of Firstsource over the last few years you have rationalized the low-margin segments of your business in India business or even some of the international portfolio. So, given the fact that customer has remained a pretty significant part of your business, what do you think is the sustainable margin profile of our business? Secondly, do you think the tie towards once again higher offshore delivery in the BPM business as well, has it done for a longer term or it might just be a near-term shift because of the hiring challenges that you see in the UK market?

Dinesh Jain: No, I think hiring challenge in UK have no linkage to the offshoring. These are two different things altogether. I think the newer wins which we are especially in the utilities customer and also the mortgage side, the mortgage is 80%, is the offshoring. As we are growing in the mortgage side, the offshoring is getting picked. That is one of the main reasons, alongside after long time I think utilities customer we talk is very happy to be in India and Philippines. We are seeing BFSI customer also slowly ready to go to the offshore. It can be the in-house, the reason could be of the Brexit. It is not a reason, Firstsource want to take their existing business to offshore. So, I am getting new deals which are on the offshoring side. So, I think probably one of the banking customers which is with us from 2004 I think first time I am finding that they are coming for 100, 150 people requirement which we are discussing as of today which is probably after 8, 10, 12-years. It seems to be at a customer level also there is a need coming up where they themselves must be facing the same challenges as we are facing, and that is probably the opening up. These are all long term deals. I do not see these are short term project deals which are coming in the offshore market. We are seeing a good traction. I do not want to comment that we will be getting into another 10%, 20% growth here, but I see the current momentum is very strong, next two quarters I have a growth pipeline which is already visible and the sign has been taken place. That gives me also the sense of being a margin profile because as soon as you grow in the offshoring side, margin profile is going to get superior.

Vipul Khanna: If I could just add on the offshore-onshore mix, right. If you think about our business relative to say other BPO or competition, it has a bigger component of customer management which in the last few years has been closer to the end consumer philosophy by most of the Fortune 500 for 300 companies. They wanted that service closer to the base. Now as multichannel, as self-service and some of those technologies kind of come in and people get more comfortable with text and chats and stuff like that relative to voice, I think that mix dramatically will change, right, and I think we are well positioned in that mix. At a secular level as it changes that we want to harness that trend as well. I just wanted to add that comment that one is within CM what is going to happen, then obviously, as we look to sort of areas of pushing like digital in collections or in mortgage that in itself will have a positive impact on the onshore to offshore mix versus our historical sort of portfolio every time.

Manik Taneja: You mentioned that this quarter there was some impact of cost to grow given the ramp ups making but given we are probably not too small now, we are probably between $500, 600 million in revenue side, at what scale do you think some of these elements will stop being a near-term headwind on margins because this is always going to be part of the business every few months you will get some large engagement, you will look to ramp that up, when do we essentially stop seeing or getting impacted because of this factors?

Vipul Khanna: So, let me start with the principal answer again and Dinesh will have more specifics, given my few days here. If I compare to say the IT business or some of the longer learning curve back office processes there is sort of bench which is built into those businesses right, and that allows you to even out your ups and downs in demand versus supply, right. Given the nature of our business we manage it pretty tightly, and that does not provide that cushion. I think as our mix changes a little bit and as you said size should help to have that cushion which allows us to even out these temporal movements between demand and supply. So, just thematically I wanted to draw your attention to the bigger and the comparison to the IT side. But Dinesh, do you want to add?

Dinesh Jain: I agree that I think once we have grown to this size of being probably not. But I think what happened when we really see the quarter-on-quarter and we try to make the difference, then you probably every rupee does count or every dollar does count. So, I think we want to be as open and friends we want to be always come out clearances, this is what is happening. $1.5 million is not a small from a way the profitability we are looking in the margin profile. We always want to call that out very clearly. That is I think intent. It is not to showcase that we are not able to manage the margin because we have cost but to put a really fact on the table this was one, two three regions where my margins hitting.

Manik Taneja: Dinesh, just to prod you a little bit further on the margin front, so you talked about 60-75 bps improvement at an EBITDA level, there is some benefit because of the IndAS accounting change at the EBITDA level. But some more longer-term perspective apart from the mix of business towards the higher digital share of business that you are pointing out, what other levers do you think we will look to deploy to improve our margin profile from here?

Dinesh Jain: I think cost side, we have done better. I think the major drive is we did in last three, four, five years, one of those, yes, you want to pick. I think cost was one of the areas which we have really addressed it well with the operating parameters to capacity utilization, all those areas. Now I think the upside has to be through the margin expansion of better type of the deal which we need to be. And I think that is going to be the focus. 50, 75 basis points is I would say this is a number per se to be. But I think way we are looking at overall portfolio every deal we are trying to see how we can build in the digital into that one, how we can put all output based or outcome based pricing which always have control in our hand to drive the better margin. So, I think that is all the focus on the table to be. I think you heard on the collections side. Digital collections is one of the offerings which is completely in my hand to decide how many people really want to do the digital piece of being while I can really work in different times on 1% or one computer can work 24-hours to give me the outcome. So, I think those will be the more driver than being a cost side of it.

Manik Taneja: So, just to understand that further, would the mortgage servicing business along with some of the business that you are expanding now in Philippines and India, would that be a higher margin profile business as compared to our onshore customer management business?

Dinesh Jain: Absolutely, that has always been the case because offshoring is always going to be higher margin profile. As of today the growth we are seeing is origination where also those are slightly higher margins and being services if you ask me. We will be able to deliver a higher outcome basically outcome-based pricing there. Offshoring, whether it is India or Philippines, it will always going to be a higher margin in percentage terms.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.

Vipul Khanna: All right, thanks, Ali. Thank you, everyone for taking the time. I know I am kind of new and we will have more specific answers as we get along, but I really look forward to sort of engaging with you and then start to sort of plan sort of individual connect with most of you over the next several months as we go and building the relationship going forward as we kind of continue to consolidate our business. So, I look forward to connecting with you and thank you for your time today.

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.