Q1 FY2021 Earnings Call Transcript - August 13, 2020

CORPORATE PARTICIPANTS

Mr. Vipul Khanna - Managing Director & Chief Executive Officer

Mr. Dinesh Jain - President and Chief Financial Officer

Mr. Ankur Maheshwari - Head Investor Relations

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Firstsource Solutions Limited Q1 FY21 Earnings Conference Call. As a reminder, all participant's 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankur Maheshwari from Firstsource Solutions Limited. Thank you and over to you, Sir.

Ankur Maheshwari: Thanks, Janis. Welcome everyone and thank you for joining us for the quarter ended June 30, 2020, earnings call for Firstsource.

To take us through the results and to answer your queries, we have with us Mr. Vipul Khanna, our MD and CEO and Mr. Dinesh Jain, our CFO. We will be starting this call with a brief presentation providing an overview of company's performance followed by a Q&A session. Please note that the results, the factsheet, and the presentation have been emailed to you and you can also view this on our website, www.firstsource.com.

Before we begin the call, please 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 the 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 Morning everyone and thank you for joining us today. I hope that all of you are and your loved ones are keeping good health and even better spirits in these times. Today, I would like to share a quick summary of our Q1 performance and our response to the ongoing pandemic. I will also share an outline of our growth framework, review our segment performance for the quarter, and also give a quick view of the outlook for the full year 2021. I will then turn over the call to Dinesh to cover out detailed financial results.

So, diving in. First off I am pleased with our performance in Q1. We have had better than expected start for the year. Revenues in this quarter grew 1.6% year-on-year on constant currency and the EPS for the quarter came in at Rs. 1.27 as compared to Rs. 1.32 in Q1 last year. When we last spoke, we had anticipated a more challenging operating environment and had guided to a 7% to 10% sequential decline in revenue. Given our strong client relationship and proactive management to the pandemic impact, we limited the sequential decline to 4.3%. Our operating margins expanded sequentially by 20 bps versus a guidance of 150-200 bps contraction. Our investment in sales and solutions organization are being to show green shoots. The sales momentum is building nicely, and we added 10 new logos in this quarter. I will get to numbers more in a bit.

I am extremely proud of our organization's ability and resilience in responding to this epic pandemic. Last quarter, I had outlined each strategic initiative we setup for shifting to a distributed environment and rethinking the future. We have here tracked each of which is led by key leader focused on re-architecting our entire business value chain to remote operations. Everything from hiring and training new employees, engaging clients and associates, and delivering everyday high quality all the way to how to sell and transition remotely has been redesigned for a distributed operating model.

Firstsourcers around the world adapted to the new model with empathy and comradery to serve our client the re-calibrated needs affectively. As such, we largely mitigated the impact of pandemic to our business. The new hybrid operating model of work at home and work at office is performing well despite the volume volatility in certain businesses.

Shifting gears to our growth framework, building on our conversations over the last few quarters, let me outline the three key elements of our growth framework and accordingly the refinement to our revenue reporting. These 3 elements are focus on core industry processes; modernized offerings powered by digital first, digital now approach; and a scalable and agile organization to drive the growth mission.

Starting off, the first element is the verticals specific in BPM. We are focused on 3 industries, Banking & Financial Services, Healthcare, and Communications Media & Tech. And within them, on specific parts of the industry value chain. Each of these industries is grappling with structural changes brought about their technology, changing consumer preferences, regulatory policy, and off late macroeconomic factors catalysed by the pandemic. We have built structured client relationships and a solid domain foundation over the years. We believe this provides us a competitive leverage to help our clients to navigate this structural evolution. I believe it also affords us the privilege of winning over new clients with impactful offerings.

The intent is to scale our industry vertical BPM offerings through the following actions:

1) Enhance our domain depth into adjacent areas of growth. For example, building on our mortgage servicing capabilities, we are expanding into default servicing. For health plans, we are expanding into provider network support, building on our historical strength of claims adjudication and member service.
2) Building and scaling platform solutions will sharply define opportunity areas. For example, our Mfocus solution provides next gen eligibility services within the RCM value chain for healthcare provider.
3) Contextualizing and cross selling the full suite of our offering to an expanding client base.

With this longer term strategic focus on managing each of these industries holistically, we think it makes most sense to shift our primary reporting breakdown to these 4 industry verticals, Banking & Financial Services, Healthcare, Communications Media & Tech and lastly Diverse. Diverse includes the early forays into utilities and Government entities.

Digital is the second element of our growth framework now, we have been talking about it. Digital is now pervasive and transient up and down the value chain for almost all industries. We are significantly strengthening our contact centres and back office offerings to better serve the contemporary needs of modern consumers and enterprises. Smart automation, analytics, digital operational management tool kit, and a talent based savvy new-aged skills are the buildings blocks of our Digital First, Digital Now approach to all the service offerings. We are therefore introducing a secondary revenue segmentation of 3 service lines –

1) Digitally Empowered Contact Centres or **DECC**. We have revamped our contact centre offering by using a mix of in-house tools and world class product partnership. DECC services the omni-channel, on-demand needs of a modern enterprise and I genuinely believe that the magic within all this lies in applying these digital elements in the context of our client or an industry problem to deliver specific business outcome.
2) The second service line is Intelligent Back Office. Our Intelligent Back Office makes processes lean and agile by deploying a broad range of automation technology. This frees up human bandwidth and ingenuity to handle complex workloads and boost creativity.
3) The third service line is Platforms, Automation & Analytics. We believe a big part of the BPM demand over time will morph into BPaaS or platform-based services. We are focused on purpose built platforms for solving specific industry pain and our opportunity areas. For example, the digital collection platform for card and healthcare receivables management and the digital intake platform for HealthPlan claims & correspondence. Both these platforms deliver dramatically better outcome for clients and higher margins for us when scaled up. Automation services for clients retained operations is an ongoing focus area we talked about.

All these 3 service lines will scale up organically by building a strong client preference ecosystem, and also inorganically to establish adjacent capabilities and obtain market access in newer areas.

The third element of the growth framework is to build a scalable and an agile organization with the right skill sets to support our vertical and service line growth ambition. We have now realigned our organization to an integrated vertical-service line structure. In addition to the market leaders on-boarded in the last 6 to 9 months, Prashanth Nandella joined us in June as the Global Chief Operating Officer. He will be responsible for more tightly aligning our global operations footprints to drive synergy and operational excellence. His early focus is on deploying next-gen ops management tools, accelerating digital skills development, and enhancing employee experience. We have also been strengthening our platforms organization. We recently on-boarded product strategist for our HealthPlans and Digital collections platform, and the investment in our sales and management organization is continuing as per plan.

Next, I would like to review our segment performance. Our Banking & Financial Services segment grew 57.7% year-on-year or 46.9% in constant currency. Our focus and investments in mortgage, collections and UK retail and commercial banking are now starting to yield very superior returns. These segments are benefiting from macro tailwinds of low interest rates and Government support to small businesses and individuals in US and UK. Mortgage origination demand for refinance and new home sales continue to be strong. In fact, new homes sales are at their highest since 2007 in the US. Collections business benefited from higher collectability per account in the quarter. As the UK economy opened up, we saw a volume uptick and increased demand from BFS clients in the latter part of the quarter. Overall, we added 6 new BFS logos in Q1 including another win for our mortgage post-closing platform. Collections and mortgage default servicing are counter cyclical. As the credit quality deteriorates, we anticipate an uptick in demand in these segments. BFS vertical remains our primary growth driver and we expect this trend should continue for the next several quarters.

Shifting to healthcare, Healthcare declined 2.5% year-on-year and 10.1% in constant currency terms. The industry is experiencing volume compression in Q1. Shutdown or Shelter-in-place orders in a number of US states and patients delaying elective procedures impacted both hospital visits and HealthPlan claim volumes. From our conversation with clients in Industry Association, hospital visits and admissions fell by 40% to 80% depending on location and procedure type in April. By June, they had climbed back to about 75% to 90% of pre-COVID levels. I must say volatility remains; after the July spike in infection rates, some States have reinstated the elective surgery restrictions of the going belief that hospitals are better prepared now and even if there was a major surge, the impact will not be as bad as we saw in April. We are encouraged by the pickup in new deal decision making as the quarter progress. We signed 4 new hospital clients including a strategic partnership with a top 20 hospital system. While the provider business's recovery will be gradual, we are seeing good traction in the payer business that the solid pipeline build and deal activity. Our digital intake platform, Sympraxis and DECC solutions form the Kernel of our conversations with health clients to solve sticky problems for them. We are also excited by the small, but consequential wins in the fast-growing telehealth and remote patient monitoring segment.

Communications Media & Tech declined 35% year over year or 38.1% in constant currency. This is primarily due to a state rebalancing by our largest client in Q1 2019, you will recall that, and the pandemic increased volume compression in Q1 of this year. From the steep declines in April-May, we witnessed meaningful volume recovery in June and certainly enjoying watching cricket and EPL on Sky despite the empty stadiums, and all those activities means a validation of the volume uptake. We have won a new logo, the leading publishing house in the UK. This global deal will help transform the client sales and customer engagement process. I am very excited that it validates a revamped DECC offering, the digital empowered contact centre.

Finally, a look at our outlook for full year 2021. The pandemic continues to add considerable uncertainty and headwind. However, given how Q1 has played out, I am confident that full-year March 2021 will be growth year. We expect full-year revenues to grow between 6% to 10% in constant currency terms, and we expect operating margins to be in the range of 11% to 11.5%, an expansion of 20 bps to 50 bps over FY20.

With that, let me handover to Dinesh to cover the financial details for this quarter.

Dinesh Jain: Thanks Vipul. Let me just quickly take you through the financial performance highlights for Q1 of this new fiscal FY2021. Revenue came in at Rs. 1,062.2 crores or $140.7 million. This implies a 1.6% growth in constant currency and 8.4% growth in Rupee terms. On the margin front, operating margin or earnings before interest and tax came in at Rs.117 crores which is 11% of the revenue and the profit after tax came in at Rs. 88.7 crores, which is 8.3% of the revenue. As mentioned in some of our earlier calls, margin performance year-on-year may not be comparable due to the investment which we have done in the organization from Q2 last year. Our sequential performance was better than we anticipated in May when we guided a revenue decline of 7% to 10% and operating margin decline of 150 bps to 200 bps. Actually, we have delivered a better performance where revenue only declined by 4.3% in constant currency terms and on margin front, we are expanded by 20 bps. Margin expansion was attributed to solid demand execution coupled with operational efficiency and tighter cost controls. We saw better volume across BFS and CMT in June month onwards. Given that 75% of revenue are delivered from US and UK geography, operation was less impacted even through April and May as these offices continued to operate in a controlled condition. In India, I think the controls or lockdowns were much stiffer, but I think we have seen that we are able to get lot of employees work earlier than expected as the Government started easing the restriction from the early June onwards.

Revenue from top customers saw a sharp decline, this was as anticipated as they have shifted their focus on servicing only the selected customer. We are witnessing solid recovery in Q2 which should be around 80% to 85% of our pre-COVID volume and we believe largely it will be normalized by Q4. On cash flow front, from operation our free cash flow generation has been quite strong. We generated Rs. 201 crores of cash from operation and our FCF which is after adjusting to CAPEX at Rs. 181 crores. DSO declined sequentially from 65 to 63 days, including unbilled. This really shows our strong focus on ensuring that we bill on customer on time and also maintain the collection. Closing cash balance as of June 30th was Rs. 204 crores, which is after repaying Rs. 86 crores on a working capital borrowing and utilizing around Rs. 40 crores for stock purchase by the ESOP trust. Net debt level stands at Rs. 553 crores or $73 million as compared to $86 million in Q4. Tax rate for the quarter is 14.5%, we expect that during the year it will range between 13% to 15%.

On our FOREX hedging, as you are all aware of the GBP, we have a hedging up to the next 3 years for value in pound 65 million and rates are ranging from Rs. 102 to Rs. 118 per pound. This is approximately 80% of our book. As we have seen the sharp depreciation in the rupee versus dollar, we have increased our hedges on the dollar front, which is normally very less on the dollar book, as we always anticipate that rupee depreciating 3% to 4%. But looking at sharp depreciation, we increased our exposure of hedging to 65% with approximately $50 million with an average rate of around Rs. 76.7.

Overall, I am very pleased with our strong collective effort to deliver this performance despite all the challenges at the early part of the quarter. Vipul has taken through detail on the rationale of our breakdown of the revenues which we are going to show on a going forward basis. From an accounting point of view, BFS, Healthcare, CMT and Diverse will be our primary revenue segment. Over and above, we are also going to put up in the IR presentation and the factsheet, the revenue split on service lines, geography, onshore-offshore split and also the client concentration.

With this, I will open up this call for questions. Thank you.

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

Mohit Jain: Sir, good quarter. What is your view on top client, like, you guys are saying 4Q will be back to pre-COVID levels in terms of revenues, so should we see this as a growth account going forward or do you think that it will get back to normalize and then stabilize at that level given that those guys are also not, I would not say supposed to, but currently they are also playing in the saturated market and their numbers are not growing?

Vipul Khanna: Thanks Mohit, our biggest client I think you rightly identified, they are in a mature market, they obviously continue to innovate new products, new offerings, and new campaigns, so there is a level of trade activity which happens right through the year, and these obviously are exceptional times. This quarter their operations, our operations are severely impacted by restrictions of social distancing and in India sort of lockdowns etc. So they shifted to emergency services only and they served only priority customers, for this quarter they used digital channels more, but as activity has come back they will kind of eased the restrictions and as I commented more volume that come into us both in UK and in India. So June was a good month and a good precursor of how Q2 is developing and as we said, we will go back to pre-COVID levels by Q4, there is some growth we have seen. Obviously, there will be some digital cannibalization which will continue to happen and we are supportive, we are participating with them in some of the digital set of deflections that is going to go on, but in the environment of a mature business, I think we are their dominant primary partner, so we expect to maintain sort of our significant wallet share with them and sort of support them as they operate in this environment.

Mohit Jain: So there is no deal which you have built into this? Like, there were some deal which was pending right last year wherein they were supposed to outsource the large part of their existing operation to you, so is that built into the numbers or this is like the business as usual as of 1Q FY21?

Vipul Khanna: There was an element of ramp which we had done in Q4. We saw that in March numbers of FY20, that is kind of built into what we call the pre-COVID levels, but right now there is normal sort of organic growth. There is no significant deal out at this stage with our top line.

Mohit Jain: Sir, second is on the reclassification of your new segment, what I wanted to ask was earlier you used to see this collections business and also as mortgage ISGN business, now where do they fit into the new classification? And if you could split the growth outlook between the 3 segments? Because it appears that Firstsource may be the fastest growing company in FY21 from an industry perspective?

Vipul Khanna: We have broken it down into 3 service lines which are more categorized by similar operating models and digital investments required, so mortgage falls across all 3. We do call centres in servicing, we do some call centres support in origination, we do some back office in servicing, and we also have a platform there. So, we have revenue across all these service lines from mortgage. Collections, big chunk is in DECC, Digitally-Empowered Contact Centre and there is a portion of it in the platform segment where the digital collections part of our portfolio in general.

Mohit Jain: So from a pure contact centre perspective, you are saying it is less 48% may be 35%- 36% kind of service lines?

Vipul Khanna: Correct, so if you call out receivables management or the collection what we do for financial services and healthcare, the customer care and customer sales, the multi-channel one, that will fall under the tech offering.

Mohit Jain: And growth will be evenly spread across these? Or like for example contact centre has been falling over the last few quarters as per the new DECC or do you think that it is going to be more driven by platform-based services and more driven by back office processing than contact centre?

Vipul Khanna: I think back office is growing strongly as we push hard in healthcare and in mortgage, I expect it will have little bit more growth than DECC, and platform is the smallest portion, but we are very focused like I mentioned in my prepared remarks where I talked about the number of areas between healthcare, mortgage and collection where we are launching this platform. I expect that slowly, as adoption increases as we sell more, the share of revenue for platforms will increase, but obviously it is still only 8%. It will take a while to get there. So, in that order I would say back office will be slightly ahead and then you will see growth coming from platform and DECC to follow.

Mohit Jain: Okay Sir, and lastly to Dinesh Sir, there was a decline in employee cost quarter-on-quarter, so is there a revision in variable pay, how should we read it while your headcount has gone up and onshore has also gone up I think?

Dinesh Jain: In that the component which you may be seeing that there are people who will be on the furlough for the UK geography and for that place that is more of cost recovery then being really the revenue, so that is the reason you may be finding something there, but otherwise in a normal course, there is no exceptional thing we have done from employee component point of view, they remain at the same levels at the normal course.

Mohit Jain: So this will get back to 4Q level as your top account ramps up things?

Dinesh Jain: Absolutely.

Mohit Jain: Sir, in the headcount are they counted? the furloughed employees are counted as part of their employee base when you report 1Q headcount?

Dinesh Jain: That is true, they are part of my employee base, they are only getting paid through the furloughs, that is the only difference.

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

Manik Taneja: Just wanted to get your sense with regard to the way our business mix, which is moving from a delivery perspective. Over the course of FY20, we have seen the offshore delivered proportion actually increased through every single quarter and although in the recent past having a much dominant local delivery engine essentially worked to our advantage, but how do you see this mix going forward over the next 12 to 24 months?

Vipul Khanna: Manik, we were not consciously choosing one or the other. If you look at the strategy, the focus is to go higher and higher up on the domain in the chosen industry verticals and within that depending on the service we get. For instance, as we see more default servicing in mortgage pickup that is more an onshore service, while if you see more origination it is kind of now we have developed a great offshore engine where we are able to serve clients in a blended model on and off kind of thing. So we are not choosing one or the other. Clearly, as we pursue some of the higher-end processes like I gave you the mortgage example. Similarly, we get to healthcare, our DECC demand for healthcare is mostly onshore, the US healthcare segment is still looking for onshore offering, but as we push our digital fintech platform Sympraxis that allows us a lot of leeway on offshore, so at this stage, I do not have a sense of how they play out in terms of one or the other, it is more we know these are the growth segments that we want to pursue for the business development and growing our existing accounts.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Congratulations on good numbers and also completing on your first anniversary with the company. As you have seen there is a significant changes in your leadership team as well, so you have alluded about the changes in terms of structures and all those things, just wanted to understand how some of these organizational change has changed the way the company would see the total opportunity in the market versus what it was like a year ago when you came in? So what things have changed? How the scalability element gets added to the picture? Where are the next easy fruits for you to pick up? And how the entire opportunity world has changed for you in this renewed structure as well as leadership team that you have installed?

Vipul Khanna: Great question. So I think few dimensions to think about it, from a go-to market and building the domain capability, we are now clearly focused on these 3 segments and diverse as we talked about. And within that, there are segments that we are focused on. Like, in banking it is mortgage collections and the UK retail and commercial banking. In healthcare, as I mentioned, we have sharpened the focus and have 2 separate leadership teams, one focused on providers and one focusing on payer. So, that is starting to bear fruit because we have the payer segment starting to reboot the business, start to build a pipeline of early opportunities and sort of seeding for the mid-term growth. While Provider, we are the leader in our chosen segments and that team is working very hard in finding adjacent areas of growth within the RCM value chain. Similarly, communications media has been our historical strength, but with a new leadership and the right strategic focus on technology or upon digital players, that is an added focus within CMT, so that we can target that fast-growing segments. So within our existing segments, we are looking for expansion, so focused leadership and then there are few, like technology, we have chosen areas where we want new vertical where we want to grow.

The other dimension of it to think about from a structure standpoint is that we want to increase our cross sell and we want to increase our specialization in some of the services. So, digital services which includes intelligent automation, analytics, digital empowered contact centres - these are COEs that we have created, so that they can help each of the industry leaders go and do either automation or DECC within their respective segments. We have also brought in specialization at the product management level, so that they can work with the vertical leaders to identify areas where we can find platform-made service opportunities and start to develop and scale those platforms. So that is kind of the vertical and horizontal structure starting to make an impact in cross sell and develop specialization in certain areas.

The last element I would say is that with the COO structure. We are trying to make sure that our delivery engine is more cohesive, our investments are more strategic and they are more spread across multiple, rather than, we are trying to do it at a business unit level, now we are looking at these entire delivery-base together and make sure there is joint accountability between the market leaders and the COO organization, for both revenue and margins and sort of building strategic capabilities. So with a more cohesive view towards delivery, whether it is investment in tools, whether it is what we do from people skilling and people engagement and people management, or our delivery location strategy. All that when its cohesive, it gives us the scalability to move faster as we increase our sales momentum, so that is how I would colour the impact from the structure and some of the new leadership which we have added to some of the more experienced leaders we had when I joined in.

Rahul Jain: Just one more if I may. First, if you could tell about the new vertical within the CMT space that you have widened after, in your first strategy comment, what are the status on that? And secondly, are you seeing any of your business vertical or service offering seeing an advantage of an acceleration post-pandemic because of any specific shift towards digital or any other technology landscape which is driving increased traction for you?

Vipul Khanna: Look, it is early days, we have started to build the market there. Starting to kind of talk to some friendly customers, talk to network to identify what are the sweet spots. The approach is, initially we will take our existing offerings, which is DECC, collections of index and sort of the back office or vertical BPM, right. So those are our existing strengths to contextualize for the DECC companies. And I think we have an early thought of newer areas which are not as competitive in the marketplace where we could get some gains, but again very early days. We have started to respond to some RFIs/RFPs and we have had very too small, but sort of Fintech wins to kind of get started in those segments. So, early days but I am encouraged by sort of possibility that we see, and sort of the path lies ahead. It is kind of given we are starting from ground zero, this will be about 4 to 6 quarter build to get meaningful traction or meaningful revenues in that segment.

The second question was post-pandemic, what is the impact from a digital standpoint? So, I think as service operations were disrupted, our BFS clients in UK, our healthcare in US, some of them came looking for surge capacity to tide over. And we took that opportunity to build blended solutions, right. So where there is a human element, then there is a technology element. So, meeting that short-term demand with sustainable solutions, which are more value creation because the blend of human and digital. It creates stickiness and we see that once you open into an account or help clients in those critical times, with those more valuable solution, there is a good possibility of some of those things rolling into permanent basis. That is one dimension of digital there has been. The second is as the volumes increase in the mortgage business and the collection business, very clearly, there is a clear demand for digital solutions, right. The demand is high, people have appetite for better solutions and we think our offtake on digital collections from the post- closing platform is very high in those places.

Moderator: Thank you. The next question is from the line of Kunal Kohli from Bowhead Capital. Please go ahead.

Kunal Kohli: Sir, I wanted to get a broad sense of considering kind of changes you are making and the impact of COVID and the kind of delivery you have done, what is the light range of growth estimates one could have? Or what is your wish list that say over next two years from 2021 to 2023 I presume some of the initiatives you would have taken in fact paying you off. So as investors, I understand it is difficult to give a guidance, but I am talking about a wide range from a more conservative to a more optimistic kind of growth rate assuming all the initiatives we were doing fall in place if you can talk more about it and similarly for the margins as well?

Vipul Khanna: Just to make sure, your question is what is the long-term growth rate that we are looking at?

Kunal Kohli: Yes. So, let’s take 2021 as a starting point because you have already given a guidance for 2021, and if we take next 2 years, by then I think the new management changes would have spent some time and some of the initiatives would start being yours, what kind of growth one would see in that two or three years period from FY21 to FY23 or FY21 to FY24? Or what is your wish list? And what kind of margins can you see once your investment starts paying off? What kind of margin would you like to see in this?

Vipul Khanna: Look, first of all I will say that this pandemic has disrupted the plans. But at some point in this year, we do to plan to do an Investor Day and present detailed strategy and long-term outlook to all of you. We were planning to initially do it in mid-year, but now obviously the schedule a little bit off the locker. If I could answer broadly, our goal has been to make sure that our long-term growth rates start to come to the top quartile of the BPM industry. And that to my head, it is more closer to low double digits and on a sustained basis. That is the long-term set of aspirations, but we will kind of come to the details as we sit down and talk to you about the long-term strategy. Margins, I think from 11% operating margins, I would expect that we will make long-term, we will make some gains of 1 to 2 percentage points. I also want to make sure that we continue to invest, the world is changing, I want to make sure we are investing in the right leaders and right tools to sustain that growth rate, but that is the comments that I can share at this stage given it is still early days into FY21 and it is a very unique year.

Kunal Kohli: Sir, is it fair to assume that your growth rates would have been much higher had it not been for COVID? I mean you are still doing the industry leading growth or at least compared to most of Indian companies, and I just wanted to get a colour, had COVID not happened, do you think your growth rate would have been much higher? And when you think some of these initiatives and investments in new people you have hired will start paying you off? Is it like next 6 months you can see some benefits over here or like next 2 years or next 1 year? When you think the entire machinery, the entire new management you have and the strategy, would start showing some benefits?

Vipul Khanna: Well, if I may comment to you, I think we are already starting to see the benefits, the growth rates that we have seen in BFS are the results of carefully focused investments. Some of it was already on when I came in and some that have accelerated since I have come in and brought in sharper focus and more investments into our sales and solution engines. I mean take mortgage for example between last year and now, we have added about 5 or 6 very strong sales and account leaders to continue to fuel that engine out there. So, I would submit to you that the impact has already started to come in. Obviously different industries are at different stages of competitive room, right. In some cases, we had a fast track start because of strong positioning. Others we are building up that engine. So, these will play out, I think in an overlapping sense, right? BFS is already started, healthcare is staring to move and then CMT will follow, with diverse is still very early days. So, I would say that it will be overlapping results. It is not like a start and stop, we will start to see the results by this time. What was your first question before this?

Kunal Kohli: Had it not been for COVID, would you have seen a much higher growth because you are anyway living a very significantly numbers this year, so has it impacted you in a significant way and the numbers would have looked much better in 2021 had it been not for COVID?

Vipul Khanna: Well, so much conjecture at this stage. But one could argue, I mean, given the commentary we have shared with you that in healthcare and CMT where we saw Q1 volume compressions, had it not been there, we would have slightly better positions in those industries and the impact on the overall results. But it is just too much macro uncertainty for me to contextualize how the normal way have been versus now how it is playing out.

Kunal Kohli: My last question, considering your largest client has been growing, at what stage do you think we can model in the existing numbers to stay? Since your large client grows, your overall growth rates get impacted. But at some point of time, would you think that this client would reach the stability? And when do you expect that would happen? At least the de-growth part, the contraction part would be over and then the negatives of reduction in growth from the largest client would stop impacting us. It may not lead to growth, at least the negative parts would get impacted and that could pull up overall company's growth rate?

Vipul Khanna: I will give you 2 comments and Dinesh feel free to add on this one. First of all, I think as our other businesses have picked up, whether it is in mortgage or in healthcare, we are starting to see a much better client concentration, a more evenly distributed client concentration because other businesses are starting to kick off. Our largest clients, we have very healthy relationship, we are their largest vendor. Obviously, there was one portfolio rationalization which was done in Q1 of last year which we have talked about in the past couple of quarters. Beyond that there has not been any significant change in the strategy, there are minor adjustments here and there and obviously now the Q1 impact. But otherwise we are tied with them in the hip. As their business operates as a steady clip, we continue to grow with some minor adjustments with them. So, I think we are at a stable phase. If we get out of the COVID phase, we will be at pre-Covid thing. There are not any exceptional events accepted that we expect either up or down, but it is a very healthy stable relationship. As they evolve, the quality of our service and how we serve is evolving within that. Number wise, I think we expect by Q4, as Dinesh said, we should start to hit our pre-COVID levels by Q4 and other businesses are picking up really nicely to have a better risk profile from a client concentration standpoint.

Kunal Kohli: If I understood you correctly, we should model in your last year Q4 numbers as the base case for this client, that would be a steady state for this client?

Dinesh Jain: What you said is right, the Q4 run rate is the number which you can factor in for your modelling purpose.

Kunal Kohli: So you would expect some growth going forward from the Q1 level in this client, right?

Dinesh Jain: Yes, as we indicated the Q1 has the COVID impact, so I think that getting normalizing between Q2 and Q3, so Q4 will be back to the Q4 last year which is pre-COVID level.

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

Dipesh Mehta: Couple of questions, first about the revenue growth guidance which you gave about 6% to 10%, now considering last three quarters we are fairly strong and now we are guiding around 6% to 10% where we have done less than 2% in quarter 1. So, if you can help us understand what drives this significant growth trajectory in next 3 quarters? And if you can provide percentage there. Second question maybe to some extent related about mortgage business, if you can provide what would be the run rate in mortgage we have achieved? And how we are expected to play out? And if you can provide the business mix and colours around it?

Vipul Khanna: Your first question is what will be revenue build out from this point onwards for the next three quarters?

Dipesh Mehta: Yes. What gives us confidence because we have fairly high base in next 3 quarters?

Vipul Khanna: I think confidence comes from 2 or 3 factors. One, our healthcare provider business which saw a revenue volume shrunk up. In June-July we started to see the volume start to come back, so we recovered from there. Our CMT business, obviously, we talked about, had a reasonable decline, again that volume is starting to come up and barring any unforeseen severe shutdowns in any other geographies, I think that will continue to build. This is on our existing business. Our banking and financial services businesses, both mortgage and collection, and the UK retail and commercial banking - all 3 are on a reasonably well growth trajectory. I mentioned that the interest rates are low, the high mortgage rates for new home sales, they are driving continuing demand for our mortgage business, both in origination and now because we are entering into this very unique time where interest rates are low and we will start to see default also increase as the impact of stimulus starts to tether out, you will start to see defaults come through, which will create opportunity for both default servicing as well as our collection business. So, it has those macro tailwinds which gives us the confidence that this sector will continue to grow from the level that it achieved in Q1.

Dipesh Mehta: Vipul, my question was more about, because the sector which you say is largely sequential incremental kind of, let's say, CMT is largely where we are seeing significant headwind in sequential terms, Q1 was very weak. But if I look last year Q2, last year Q1, CMT was doing reasonably okay. Now when you guide for full year, you are guiding from year-on-year based perspective, right, 6% to 10%? Now CMT unlikely to provide you any lever from year-on-year perspective, likely to remain weak. Even healthcare unlikely to provide you significant growth. Large part of the growth coming from BFS and in my opinion largely might be from mortgage. So if you can provide that perspective because quarter-on-quarter I understand there would be significant improvement in which you would likely to witness and that is why you guide 6% to 10%, if you can provide some perspective there?

Vipul Khanna: Sure, your comment on CMT from a year-on-year perspective I think it is valid. Healthcare, we will see some uptick and we see good traction in payer. So, whilst provider will recover, but we see good traction in payer, so it will be a decent uptick year-on-year basis on the payer part of our business. On BFSI, mortgage we did about $36 million in Q1FY21 and we expect this will continue to increase QoQ and if you look at our run rates from the prior two quarters, this was a healthy sort of 20 some percentage increase on the last two quarters numbers of FY20 as far as mortgage is concerned. Similarly, our Europe BFS business, between Q4 and Q1, it had a healthy 7% increase on that as well, so that gives you a sense of how this will play out on a year-on-year basis relative to not just Q1, but also from Q4 of last year.

Dipesh Mehta: Yes, understand sir. Mortgage, let's say now we have said around $36 million what we achieved in Q1 from revenue perspective, how generally they get translated in terms of your margin? Because now we are not reporting it from segment perspective, but we are seeing significant exploration in your margin profile with origination growth and overall growth. So if you can provide some perspective, now let us say Q1 is $36 million and you expect it to further grow? And when we will feel there would be some risk because then you have to maintain in FY22 to FY23 this high base? And when origination might be likely to taper off? So if you can provide thought around it?

Vipul Khanna: Yes, sure. It is a fair question something we think about all the time. As far as origination, which is linked to interest rates, our sense is that the current record low interest rate environment, this will continue for at least 3 to 4 quarters and who knows maybe till the end of next calendar year from US perspective, just given the macroeconomic conditions are. Also keep in mind, which I will continuously talk about and very focused on internally is that we try to keep a balance between origination and services and that mix has been 60:40, 60% origination, 40% services and even with the expanded base, we are keeping it up to it and more so as I made the comment about default servicing, default servicing in a way will come into play for the next couple of quarters, you have seen how the US banks have reported results, they have taken big provisions for credit losses across their financial products, whether it is cards, mortgages, auto, etc., we do not play in all of them but as that phenomena plays out, if I may, last time when we had the global financial crisis, the whole default cycle was the US home market took about 4 years to work through. But it is a very structured process of what happened in those case at an individual property level and that everybody is expecting, everybody is starting to prepare for it. But we have not seen the actual volumes come through yet, it will start to come. So that will act as a reasonable foil to when the winds go out of the sail on the origination side of it. So yes, whenever that happens, we will have some risks, but I think we will have a much bigger cushion this time to deal with it when the transition happens.

Dipesh Mehta: On profitability if you can address, how mortgage revenue acceleration is also supporting overall profitability as well as that segment profitability?

Vipul Khanna: I think most of our BFS portfolio is healthy margins, whether it is mortgage or collections or even the UK retail and commercial portfolio. Obviously, as our scale is increasing, we are getting more operating leverage out of our SGA investments. So it is kind of as you would have seen, this quarter the BFS margins were about 18% odd some percent, which was an improvement on the prior quarter largely driven by scale and the fact that now our engine is optimized for scale up. We are able to scale better rather the earlier investment which was going into the hiring and training part of it. Dinesh, anything else to add on the margins for BFS?

Dinesh Jain: Yeah, I think BFS, the other thing especially on mortgage, as it also has big off-shoring piece into it and that is the reason the margin profile is slightly better in compared to others because in case of healthcare, lot growth comes from onshore which will be slightly lower than their offshore margin profile. So also that is one of the data point within the mortgage that the off-shoring has a play in that one and that is going to have differential margin or higher margin profile.

Dipesh Mehta: Understood. Last two, what would be the concentration? Earlier we had one large client in mortgage used to contribute significant portion of revenue, if you can provide now considering we have seen significant uptick and couple of clients' logo addition over last few quarters? So, what would be the concentration there in mortgage? And another question I have is about the technology segment, in part of CMT, what M&A role will play for you to build that presence there?

Ankur Maheshwari: Dipesh, on the largest customer we continue to maintain less than 40% concentration within the business segment. All the new customer growth that we are actually getting through is helping to drive the growth across both origination and servicing. So at an overall level, there is no concentration risk necessarily that is driving, it is not a one client-driven growth that we are seeing, it is a more secular growth.

Vipul Khanna: Dipesh on your M&A question, whether for technology or broadly, I think it is absolutely a viable strategy to get a set of capabilities or set of client access to get rolling. My approach to M&A is do it systematically, do it continuously, build the network and reach into the markets, so you have access to what is coming up. You have a list of things that you like as you want to proactively go after and that is the process that we have been steadily developing and building elements of visibility into the market. Nothing specific to report at this stage, except acknowledging that it is a viable strategy. It is in our radar and we continue to develop our visibility into the possible options.

Moderator: Thank you. We take the last question from the line of Shivam Bhatt from ICICI Securities. Please go ahead.

Shivam Bhatt: I just wanted one clarification, this 6% to 10% growth is in dollar terms that you are expecting or in rupee terms you are expecting?

Vipul Khanna: This is on constant currency basis.

Shivam Bhatt: So, you are expecting a 6% to 10% growth on $578 million?

Vipul Khanna: Yes.

Shivam Bhatt: You have given categorization about the new verticals, digital and platform in that much how would be collection and how much would be the customer care in each of the segments?

Vipul Khanna: Of the 48% of our total revenue, which is classified as DECC, about 36% is customer care and customer sales and 12% is collection.

Shivam Bhatt: You had classified three right, one is digital acceleration, second is customer intelligence, and the third is platforms?

Vipul Khanna: We said 3 - digital is our contact centres or DECC, we have intelligent back-office and then we have automation and platform.

Shivam Bhatt: In that, that utility and back-office is completely customer care, right?

Vipul Khanna: Intelligence back-office is all back-office, all customer care is in DECC which is a Digitally-Empowered Contact Centre, that is where the contact centre is, this is all transactions that we do.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference over to the Management for their closing comments. Over to you, Sir.

Vipul Khanna: Thank you everyone for joining. It has been a decent quarter. Good to have you all around with us over the last several quarters and I look forward to talking to you in the next quarter. Thank you again for joining.

Moderator: Thank you very much. On behalf of Firstsource Solutions Limited, that concludes this conference. Thank you all for joining and you may now disconnect your lines.