Q2 FY2022 Earnings Call Transcript – September 30, 2021

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 Q2 FY22 Earnings Conference Call. As a reminder, all participant lines will be in 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 now hand the conference over to Mr. Ankur Maheshwari from Firstsource Solutions Limited. Thank you, and over to you sir.

Ankur Maheshwari: Thanks. Welcome, everyone and thank you for joining us for the quarter ended September 30th 2021, earnings call for Firstsource.

To take us to the results and to answer your queries we have with us today 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 the company's performance followed by a Q&A session.

Do note that the results, the factsheet and the presentation have been e-mailed to you, and you can also view this on the 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 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 afternoon everybody and thank you for joining us today. Slightly belated but wishing each of you a very Happy Diwali and make good health enjoy light up your life.

Let me get some quick remarks. So, we had another steady quarterly performance in second quarter of fiscal 22. Revenues grew 18.5% year-on-year in constant currency and came in at INR 14,286 million or $193 million. Operating margins were 12.5% and EPS grew 30.7% year-on-year. Our business across our industry segments and service lines continues to scale well. The performance is a testament of the focus on a growth framework. This means we continue to maintain a sharp focus on our three core industries of Banking and Financial Services, Healthcare and Communications, Media & Tech. Second, modernize our offerings, particularly investing in our Digital First Digital Now approach, and three, build a purpose led scalable and agile organization.

First off today, we have executed an agreement to acquire 100% of the StoneHill group to add to our mortgage portfolio, and we expect to close this transaction by end of the calendar year. This transaction is consistent with our systematic inorganic growth strategy to add adjacencies to our existing offerings. We will discuss more on this in a few minutes.

Let me walk you through this quarter's performance and the key highlights in each of our industry segments. Our banking and financial services segment grew by 13.4% year-on-year and 12.3% in constant currency in the second quarter. While we continue to see decent year-over-year performance, the mortgage business declined sequentially as expected. This is primarily due to the slowdown in the refinance volumes in the origination segment. Despite this decline, we are pleased that we gained market share from slight to quality and well developed on and offshore delivery model. The servicing portfolio in our market business continued to make gains with strong expansion across existing and new clients. Our digital portfolio is scaling up nicely as well. The post-closing platform that I have talked to you about in the past now has four active clients. And our first low code no code application went live for a key market process and is to my mind harbingers of increasing usage of low code no code app. Despite the inherent volatility of the refinance market, our long-term growth strategy has not changed. The real estate market in the US is strong and is expected to remain so over the medium term. We consistently expand our existing client relationships while adding new clients to the mix. During this quarter, we added four new clients. At the same time, we continue to expand our capabilities and adjustment areas to leverage both our scale in the market industry and the relationships we have built over time. The acquisition we just announced off the StoneHill Group is a great example of this.

Let me switch to the collections business. The collection business is underperforming our expectations impacting the full year growth projection. We had anticipated a greater pickup in credit card receivables delinquency with the gradual opening of the US economy. In fact, the delinquency rates are at record lows. Federal Reserve card delinquency rate for the last quarter was 1.54%, the lowest on record since they started reporting this metric 30 years ago. So, while consumer spending is increasing, the customers are paying off their balances due on time or are increasingly using debit cards for their purchases. This is impacting the volume that we handle for our clients. While it is difficult to determine how long this trend may continue, the emerging macro view from analysts and bankers suggests that payment rates should normalize and delinquencies should begin to rise as the economic stimulus effect wane.

Now as to the mortgage business, we continue to expect the collection business to be a growth driver barring this exceptional period of economic behavior. We continue to diversify our client base to other industry segments and made good progress on our push to FinTech and utilities with a market leading digital collections platform. As consumer payment habits evolve, we saw greater volumes from our FinTech and BNPL clients in this quarter, and this is still a smaller share of the market. Our UK BFS business maintains a steady momentum and we are quite excited about some of the deals we are currently working on. In fact, after a long 20 month hiatus, I'm traveling to UK tomorrow to meet our existing clients and some of these prospects.

The healthcare segment grew by 31.7% year-on-year and 32% in constant currency this quarter, and one of the fastest growing segment once again. We are pleased that our investments and new capabilities are beginning to pay off. In particular the significant addition to our sales, solutioning and key delivery ecosystem for platform based services are being well received by the market and truly differentiating us. On the back of this, we are increasingly participating in large transformation deals. Recently, we closed our largest platform-based service or BPaaS deal with a large health insurance company. This highly competitive win will re-architect the client's entire business operations by retiring old technology and replacing with a modern integrated software and services solution. We will take complete ownership of running and improving the organization's operations while simultaneously modernizing the underlying technology stack. This deal is reflective of the market growing acceptance of BPM and technology companies collaborating for executing large scale transformation, in this case, to improve member health outcomes and experiences while delivering cost efficiencies. Now this is truly a pivotal deal as it gives us access to the BPaaS market, and more importantly, validates our template of domain plus digital which has triumphed over the scale of integrated service providers. This deal is scoped at $110 million TCV and is our first $100+ million deal in healthcare. And, I believe this is the first of several such partnership deals across the industry where clients choose best of breed partners to execute complex transformation by bringing the best of Operations and IT partners together. Apart from this win, the pipeline of our digital intake business at its highest level, as we look to add more marquee names to our client roster. We added two new clients this quarter in our HPHS business. The volumes in the provider businesses have remained steady. As we discussed earlier, the public health emergency continues to remain in effect in the US and a large number of states are still dealing with high COVID caseload, impacting elective procedure volumes at hospitals. Over the last several months, we've been working to create a holistic and connected ecosystem of our solutions for the healthcare provider world. In this quarter we launched our healthcare cloud. This will help us onboard customers faster and enable them to modularly consume our services. In the first phase, we have launched nine services across pre visit, self-pay, receivables management and uncompensated care. I'm very excited with this launch and the possibilities it creates for our business.

Finally, our communications media and tech segment continues to perform well. In the second quarter of fiscal 22. This segment grew by 25% year-on-year and 18.3% in constant currency. The business and client relationships are steady and we are capitalizing on growth opportunities. Our key clients witness lower volumes as summer months, and the opening of the UK meant more people were outdoors, and less of cable and TV, etc at home. Also, the UK market is going through an unprecedented talent situation leading to some demand execution challenges for us. Sales momentum is indeed picking up. We added three new clients this quarter, including new age FinTechs across US and Europe. For these FinTech clients, we are designing, building and running their end to end operation using components of a digitally empowered contact center platform.

On another note, I am pleased to say that Firstsource has been positioned by ISG as a leader in the ISG Provider Lens™ quadrant report on European contact centers. Firstsource was one of just a few named a leader across all four categories, digital operations, artificial intelligence and analytics, work from home and social media customer experience. This is a great validation of our focus on modernizing our offerings.

Let me give a quick comment on the talent situation. As we are all aware, both the US and UK markets are going to unprecedented talent shortages driven by a multitude of structural and pandemic related reasons. At Firstsource the situation is no different. Attracting and retaining talent both these markets have been challenging resulting in some revenue being left on the table. We are executing a slew of tactical and most structural actions to increase our hiring and retain talent for longer. The actions focus on better outreach, higher com and a new center plant in targeted areas and revamping of our training and on the job training strategy. At the same time, we are adapting to the evolving WFH_WFO dynamic as the economy's open up.

Let me give you some comments on the StoneHill acquisition. The company is based out of Atlanta and was founded in 1996. This acquisition provides a strong presence in the quality control and due diligence segments within the mortgage business. The strong lending market and climate of increased regulatory scrutiny makes the quality control or QC and due diligence offerings very attractive and add more links to our mortgage value service chain. In addition to allowing us to cross sell the capabilities to our existing clients, the StoneHill Group provides us with deep access to mid-market lenders and banks. The purchase consideration for this acquisition is expected to be $27 million, of which 80% or $21.6 million will be paid at closing and the balance after 12 months linked to earn out. The company is expected to achieve $20 million of revenue in calendar 21. And this is likely to contribute about 60 to 70 basis points of growth to our revenues in fiscal 22.

Finally, coming to the full year 22 outlook. We are revising our growth guidance to 14.5% to 15.5% in constant currency including the contribution from StoneHill acquisition. We expect Q3 revenues to be roughly flat sequentially. As we discussed earlier, the collection business is facing transitory macro challenges and then there is a revenue impact from talent situation in our onshore markets. However, this does not in any way detract from our long term growth trajectory. We remain confident and our ability to drive top quartile growth industry. When we look to Q4, we see a strong momentum in the business based on the recent healthcare win we discussed earlier. CMT when expected to start ramping up and the historically stronger Q4 in collections. We are pleased with this expected Q4 momentum which results in a run rate that sets up nicely for fiscal 2023. We also realized that all this demand needs to be fulfilled and we are feeling good about the impact of actions we are taking to attract and keep more talent. The operating margin guidance is maintained at 11.8% to 12.3%.

With this, I'll pass it to Dinesh to cover financials in some more detail.

Dinesh Jain: Thank you Vipul. Here's a quick summary of the Q2 financial performance. Revenue for Q2 came in at Rs.14,286 million or $193 million. This implies a year-on-year growth of 20.3% in rupee term and 18.5% in constant currency term. As Vipul talked about on the margin front, operating margin came in at Rs.1,791 million or 12.5% of revenue, which is a healthy growth of 31.9% year-on-year and this implies a margin expansion of 111 basis points. Profit after tax came in at Rs.1,350 million or 9.5% of the revenue for the Q2. This is again a healthy 28.2% growth year-on-year with a margin expansion of 59 basis points. In the Q2, we have generated Rs. 2,429 million cash from operation and our FCF was Rs. 2,271 million, which is after adjusting for CAPEX of Rs.158 million. Closing cash balance as of September is approximately Rs. 2,177 million. DSO was around 54 days in second quarter as compared to the last quarter of 56 days. Net debt situation for the better off as we repaid around Rs. 65 crore this quarter, and stands at now Rs. 3,380 million or $45.5 million versus the last quarter $53 million. Tax rate for the Q2 was around 18% and we are still holding the guidance between 17% to 19% for the year for the tax rate. On the Forex hedging side as you aware of being we have a long term hedging policy and currently covered GBP 46.7 million for the next two years, with rate ranging between 110 to 117 per pound. On the dollar book we have around $81.6 million with average rate between $77 to $82. With this we can open up for the question. Thank you.

Moderator: Thank you very much. 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: Sir just one on your guidance, did I hear it right you are revising it to 14.5% to 15.5%, including the acquisition?

Vipul Khanna: That's correct Mohit.

Mohit Jain: So, what caused such a sharp drop, or decline in the guidance in the last three months. From your commentary, it appears that most of the things seem to be on track, except that we had this big decline in Q2. So, are you expecting, earlier the idea a few quarters back was we should be able to maintain the current run rate of Q4 21 during the year. Now, it looks like you're expecting that in Q4 also you may see some drops, is that a correct assessment or what is your thought behind this revision?

Vipul Khanna: So, Mohit we have kind of tightened the band to a percentage. And the lower end we have dropped little bit from the last time we spoke. Mortgage has declined. But that was expected, we've been talking about it that's kind of more inherently volatile revenue. It kind of peaked in Q4 of last years that have trended into Q1 and then it started dropping. The unexpected portion has been collections. As I mentioned last year the spend were low and discretionary spends were also low. But because people had a lot of cash, they've been paying up which means that the volume that we have from our clients to work on us, that declined. And a few of our top clients have asked us to reduce capacity temporarily because, the credit quality is so good. So, that's been one big cause of why we had to kind of adjust our guidance. And the second one, as the economies have started to open up, especially US and UK, the talent shortage for our industry is pretty pronounced across sectors. Everybody is kind of trying to hire people. So, that has caused some challenges for us on the revenue side. And UK obviously has the Brexit impact playing out through now with shortage of labor, it's kind of reflecting. And US has its own on shortages as the economy opens up. So, these two factors are primarily kind of forced us to bring the guidance a little bit down. As I said, Q3, the December quarter we expect will be kind of similar to this year, but I expect that to be pick up strongly by Q4, which is our March quarter for FY22, to kind of net, net land between 14.5% to 15.5%.

Mohit Jain: Understood. And sir second, just a clarification. So, when you say labor shortage, you would expect it to sort of get hit on the margin side, not on the revenue side. In this case, what you're saying is that our margins may hold up well, and we may have to sacrifice some revenues on account of labor conditions?

Vipul Khanna: Yes, we're going through this pocket where we have demand, we're not able to kind of get enough people to fulfill demand, India we don't have that problem, India is efficient high but there is enough supply, US, UK supplies are tend to be limited. So, there is some revenue, which is left on the table. The call out on the margin, is obviously this was a strong quarter. But we have implemented instruments from October 1st, so we'll see some impacts of that. But also, because of higher demand it has allowed us to shift some of the capacity to offshore, which has the positive impact on the margin.

Mohit Jain: So, that basis, second half you should broadly maintain at first half level from an EBITDA perspective right, or should we expect a little drop in given that to become effective?

Vipul Khanna: A little bit drop overall we are still maintaining our initial guidance of 11.8% to 12.3%.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum. Please go ahead.

Nagraj Chandrasekar: Vipul, could you expand a bit on this large healthcare deal we won, who our partners are, what sort of solution we are replacing, who we competed with to win this. And what would be sort of the annual revenue impact of this deal, because $100 million is a large number. And I guess it'll be shared with the partner. So, how would it hit our revenues and what's the pipeline of such deals looks like in the future, and what sort of win rates we expect here?

Vipul Khanna: Hi, Nagraj. So, Nagraj this is a BPaaS deal, business processes as a service where we combined with our partner and are responsible for the technology stack, the ops stack, and the design and analytics on top, the three core components to drive chain into the business. We have partnered with an IT services company; in fact, we've developed a number of IT services partnerships. In this case it's chosen a partner who kind of fits the bill, we are the prime and the partner will be kind of the sub. And then there are a couple of other product companies, technology product companies will be part of this group of though. The deal is $210 million as I said, our share is about $110 million. So, that's the number kind of shared with you and we expect at today's starting point, we expect about $16 odd million a year revenue. There will be some choppiness once it starts and then kind of settle down. But give or take about $15, $16 million a year revenue from there, from the current stroke. And hopefully, wherever we go from there. We won against the big one, the big integrated players who do everything. So, we went against all Tier I competition, long deal cycle but it's a strength of our business knowledge, the strength of sort of how we brought different tools together to improve the business processes, which allowed us to win this deal. It's, something which I'm keenly looking forward to a strong execution, because then it opens up sort of the market. We are beginning to see more deals like this. We have a couple more, not exactly the same scope but similar transformation with different set of architectures in the hopper. I'd love to win all but realistically firstly is the big one and then kind of set the momentum. And I hope it gives you enough color on the deal.

Nagraj Chandrasekar: Yes, that's very helpful, thank you and congratulations on this again. Also on the collections part, which you said has come back a bit slower than expected, the October month, saw a very large amount of US spending again on credit cards after a week period in the prior months. So, typically, how long does it take for a large spending amount to sort of filter down into good collections number both for us, number one and number two, this large shift to spending away from credit cards towards BNPL is that revenue accretive or dilutive for us?

Vipul Khanna: Sure, great question. So, look typically, card spend versus people who fall behind the delinquency starts at 90 to 120 days, and then the write off as per the current US accounting standards, etc is 180 days. But there are more nuances to this, as you rightly picked up the October spend has come up. But then we got to see, where is that spend, is it mostly happening in prime or subprime, because the prime customers would mostly be the ones who are spending and paying downwards, they're using it more like a charge card than a credit card. It's the subprime which revolve and the prime is at this time ahead of the spend, the subprime hasn't picked up as much. So, there will be the lagged impact of that before it gets too delinquent. And your second question was around BNPL and FinTech, so yes they are fast growing segments, they are still at a smaller portion of the total market, we are keenly watching it, we are fully into it, we are already working with set of three of the top eight BNPL companies with our digital collections platform, because they want only digital solutions. And we have a very focused team targeting to work with other BNPL as well as expand the scope of our surfing not just from digital collections, but also go to merchant servicing and stuff like that. So, very hot trend, a lot of action there and overtime, this will only grow at the cost of credit cards. So, we have to go both feet into that while we still serve the bigger traditional card segment.

Nagraj Chandrasekar: And just one last question on the mortgages, the absolute amount on this quarter, and what was the servicing versus refi split here and how you see the decline levels from here on?

Vipul Khanna: So, this quarter mortgage business came in at about 55ish million for this quarter, something like that. And Ankur help me with the split between origination and servicing.

Ankur Maheshwari: I will give you offline if that is alright.

Nagraj Chandrasekar: Sure. Thank you.

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

Dipesh Mehta: First of all, just trying to understand guidance you indicated about the acquisition will contribute about 0.6% to 0.8%, is it correct for FY21?

Vipul Khanna: 0.6% to 0.7% Dipesh for FY22.

Dipesh Mehta: That is largely for Q4 kind of contribution right?

Vipul Khanna: That's correct.

Dipesh Mehta: What will be the mix in StoneHill revenue between origination and servicing, because it seems they are not seeing that headwind. What our mortgage business is witnessing?

Vipul Khanna: Good observation. So, mortgage origination if you break it into refinance, which is same property, same owner just refinancing for a lower rate versus a purchase transaction where somebody is buying a first house, a second house, upgrading what have you. QC and due diligence are used for both but there is a heavier weightage for QC, and DD or due diligence being used for more purchase transactions and for more complex mortgages. So, the more vanilla products of mortgage for smaller tickets they go through because they're more standardized, but the more what they call is nontraditional. Those are a bigger portion of what the ultimate GSEs the Fannie Mae and Freddie Macs want the QCs to be done for a greater portion on those. So, there is some hedge to refi because greater portion of purchase and then a greater portion of complex transactions, whether refi or purchase use QC and due diligence. And second, due diligence mostly plays in the securitization. So, whatever has been heavily sort of refinanced and so many transactions have happened in the last two years. Given the low interest rates, a lot of them are now going through or will go through securitization and change hands. And during this change of hands of the securitized portfolio is when due diligence gets used. So, that kind of gives us an element of hedge to pure refi origination.

Dipesh Mehta: Okay. And for the current calendar, you indicated revenue to be around $28 million for that entity?

Vipul Khanna: No, $20 million for calendar 2021.

Dipesh Mehta: Okay. And in terms of client profile, whether it helps us to diversify and reduce dependency on few client in mortgage business post acquisition or it won't have any material difference for us.

Vipul Khanna: 100% complimentary because they usually service the mid-market lenders and the smaller banks, we generally play with the bigger originators and banks. So, this is a new complementary markets, and we think we can take some of our title services, etc to the smaller bank market. And likewise, we take their services and sell to our bigger clients for QC and due diligence.

Dipesh Mehta: Understand. And whether it operated similar profit margin of our mortgage business or it is different considering 100% home side kind of thing.

Vipul Khanna: They are 100% transaction based pricing and also they have good technology which is integrated. So, despite being onshore they have healthier margins.

Dipesh Mehta: Understand. Second question about the large which you indicated in healthcare, if you can provide some detail writing, you gave some detail like $16 million revenue run rate and other thing, so from when do you expect the deal ramp up to play out. And second thing is the supply challenges what we are witnessing, do you think any implication it could have in terms of overall ramp up plan for that deal?

Vipul Khanna: Not in that deal. From a timeline perspective we expect that deal to kind of start going on track from Q4 so January, February onwards we'll start the implementation. There is a small rebatch portion that we're doing, which kind of gives us a head start. And then it's a heavier component of offshore to India and Philippines, where the talent market is still has a lot of runway. So, talent constraints won't play a role in in that deal.

Dipesh Mehta: Understand. Last two questions from my side, coming to collection business, can you provide some detail about let's say what was the revenue run rate, where it currently operated, how we expect it to play out in next two quarters, if you can provide some detail just to understand the kind of challenges and volume weakness we are witnessing in the business?

Vipul Khanna: So, last year, fiscal 2021 we did closer to sort of $65ish million on that business. Q4 is a strong quarter there because there are higher collections from tax refunds, etc. So, there is some seasonality of in that collection business. We have seen sort of flattish to now a declining somewhat Q2, we expect Q3 to be flat, there'll be a seasonal strength which will come up in Q4. Net-net our sense at this point that for the full year 22 collections will be very marginally up from last year, while our original forecast was a stronger company that have average growth, but right now, we expect it will be a marginal given this the lack of volumes in that in that segment.

Dipesh Mehta: Understood. So, broadly the differences is growth expectation versus flattish performance. It is not like it has started declining for us?

Vipul Khanna: No because of the growth from FinTech and BNPL and stuff there is that and then there is downdraft from our traditional client base for now contracting but it's still a net growth.

Dipesh Mehta: Understand. And the last question is on the top client. This quarter also we are alluding to some of the volume slippage happening because of supply changes, plus Brexit related things and economy open up. How one should expect Q2 is now more sustainable run rate or you expect further weakness to happening on top client?

Vipul Khanna: Okay, so for a top client, I mentioned two reasons one, the summer months are generally soft for them because the big sports, etc franchises kind of take a break, people are more out in stuff. So, there is less trading activity that they see on the client. It generally picks up in the December quarter because it's the festive season and stuff like that. And plus there is a new product launch as well. So, we are starting to see more volumes come through. And the good thing is, there is now a little bit more weightage towards offshore. So, it helps us on the talent side as well given some of the constraints on onshore. So, I expect a pickup in Q3 and then sustaining that in Q4 for a top line.

Dipesh Mehta: Because last year base is very high for H2 perspective, if I look at it, but do you expect Y-o-Y growth to happen in that account, in H2?

Vipul Khanna: I don't have that handy.

Dipesh Mehta: Roughly $67 million was the number for last year, currently we are at somewhere around $40 million Q2 run rate.

Vipul Khanna: Yes. Ankur, could you have the sense of what do we have the latest on H2 from this?

Ankur Maheshwari: No, we don't have the H2 breakup handy, Dipesh again this is something which probably I can pick up separately.

Vipul Khanna: Nagaraj, if you're still on the call, just to come back to your question it was Q2 on mortgage, the breakdown between origination and servicing was 67:33, 2/3, 1/3 which was compared to the previous quarter was more like 70, 30ish. So, there is a good three point movement with servicing kind of rising, but also the compression in the overall mortgage business.

Moderator: Thank you. The next question is from the line of Shradha from Amsec. Please go ahead.

Shradha: Just to ask you more on the guidance perspective, we are talking of this last deal ramp up to happen in Q4 and despite that we are cutting a full year guidance, so do we expect further moderation in our mortgage business from the current run-rate or what is leading to more cut in guidance despite the help from the deal that will come to you?

Vipul Khanna: So, Shradha as I said, because of the expected slowdown in mortgage or not slow down reduction because last year's volumes were seasonally high. Now as interest rates come up, the refi volumes will drop while the purchase volumes will continue. Right? To grow, because the real estate market is still strong in the US. So, that reduction in refi volume kind of started in June quarter, we saw more of that in September, it'll continue a little bit more and then stabilize hopefully by Q4, if not by Q1 of next year. But this is all as we expected in the mortgage business. The reason primarily for us to tighten our guidance from 15% -18% to 14.5% and 15.5%, primarily as I said it's from the unexpected macro conditions which are impacting collections, and somewhat the talent situation in US and UK, which is leaving some wonderful demand for us. Those are the two reasons, but I still expect at this time sitting in sort of mid-November, that Q4 we should see a good pickup of demand. And we kind of book the revenue not just from the large deal but also from some of the other CMT deals that we have signed, plus some seasonal pickup in collections. So, Q4 should be strong and hence when I look at the entire year, we had these two quarters of macro condition driven turbulence, but we come back to Q4 and then sustain that in FY23 is the sense we have at this point in time.

Shradha: So, just in terms of numbers to mortgage we are close to $55 - $56 million in this quarter. So, can we look at this number going below $50 million by Q4 and then stabilize from then on?

Vipul Khanna: We will see some reductions on the current level exactly where it goes down. There are some moving parts and deals in the pipeline as well. So, we'll wait for another quarter to say where we ended up in Q4 but the reduction and the full impact of the reduction will have some impact on our numbers. But at the same time, the new wins from servicing as well as some synergies from StoneHill from Q1 of next year, that will provide us the buffer to sustain that business.

Shradha: And just one more question. We have some payments, one is on the acquisition of StoneHill and another is the payments, which we have to make at the mortgage client. So, how are we looking at funding these payouts all from internal accruals or we have to raise some money to fund these payouts?

Vipul Khanna: Now, our free cash flows are pretty strong. We made our first payment to our mortgage client in July. And the next one, kind of coming up until start of next financial year. And as I said, The StoneHill acquisitions about at $21.5 million payment enclosing at the end of the year, the rest is after 12 months. So, this will do comfortably from our free cash flows. Obviously we keep working with our working capital limits and stuff, Dinesh you wanted to add any more color than that.

Dinesh Jain: No, that's true Vipul, it's all going to be funded through internal accrual.

Shradha: And we should not see any change in our payout policy as well, right?

Dinesh Jain: Payout policy in the sense of dividend you are talking?

Shradha: Dividend payout last two years have been stronger dividend payout, so given that we have such payout in terms of acquisition and the payment to mortgage clients, so should we see any moderation in our dividend payout business?

Vipul Khanna: Early for that, we are just about at the mid-year point. At this point in time, we see good cash flows. And still a business even at the midpoint of our guidance the business, which is still growing at 15%. So, the business is on a strong footing and we'll see where we end up in the next two quarters from a dividend standpoint.

Shradha: Okay, sure. And just one thing you said we would have some impact of wage hike in Q3, did I get it right?

Vipul Khanna: Yes, parts of our colleagues, we've implemented increment sector from October one, we'll see some impact of that in our Q3 numbers. But as I said, we are still maintaining our full year guidance and margin of 11.8% to 12.3%.

Shradha: And if I'm not wrong, we had given out certain hikes and in Q1 as well, is it another round of salary hike that we are giving in a gap of just one quarter and in Q1 if I recall right we had some impact of wage hike in that particular year?

Vipul Khanna: No, we had done our last hike in for parts of our population from effective January 1st. So, we're now trying to get back into cycle after last year was a little bit of a unique care even COVID and stuff like that. So, that was Jan 1st, this is October and we'll see, this is our sense for now we want to keep this as a cycle for the future.

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

Dipesh Mehta: Couple of question. First, earlier we indicated last quarter earning call mortgage business, we expect double digit organic revenue growth, excluding StoneHill which we did, do we believe we can deliver double digit revenue growth for full year considering where we are in Q2?

Vipul Khanna: Dipesh, still we are net growth here. At this point in time, we are looking at somewhere between high single digit to kind of early double digit, the pace of the decline in refi market has been dynamic. And we'll see how this plays out, but at this time we're still very confident of achieving net growth, whether that's high single digit or early double digit, we'll kind of get a sense in the next two or three months.

Dipesh Mehta: Okay. Second question is about the StoneHill run rate. You indicated for the year we expect around $20 million for current year, if I look the nine months which we reported, it is somewhere around $17.5 million which indicates a run rate likely to materially deteriorate in Q4 per se. So, how one should look for next year perspective and what explains any particular seasonality in that business or why it is so low in Q4?

Vipul Khanna: So, they have three businesses, they have QC, they have due diligence and then they have a portion of what is called fulfillment which is similar to what our origination refinance business is, they had a little bit of a choppy part of that business, which was they have that as well. Like us, they had a good first half of the year and like us, as industry volume declines, they are seeing some compression there as well. That's the portion which is declining somewhat as they come into the fourth quarter, the QC and DD businesses are stable, and they're growing. At this time as I said, we have modeled them at about a modeled at about 60 to 70 basis points of our revenue growth. Somewhere between $4 to $4.5 million.

Dipesh Mehta: Okay, so it would be $21 to $22 million, not $20 million, right understand?

Vipul Khanna: Sorry, I didn't understand the math.

Dipesh Mehta: Because nine months they did $17.3 million, if they do $4 to $4.5 million in Q4, then run rate should be $21 to $22 million for the year.

Vipul Khanna: Okay, you were talking about that. I was answering for your going forward run rate for us.

Dipesh Mehta: Hence forward this would be somewhere around $4 to $4.5 million quarterly run rate?

Vipul Khanna: At least that's the start point and obviously the synergies to come from them.

Dipesh Mehta: Yes, that gives something and last question is about if I look BFS excluding mortgage business, it seems to have declined 10% so closer to double digit quarter-on-quarter. Now earlier used suggested collection business is largely flattish. So, what explains this weakness in non-mortgage business in BFS?

Vipul Khanna: There is obviously an element of seasonality which I mentioned, if you take the seasonality out collection has been sort of flattish. But obviously there is some decline at this point in time. And second, the UK component size of our BFS business also had shade of the talent situation coming into play there.

Dipesh Mehta: Do you expect it to reverse because, our non-mortgage business used to do well for us, which to some extent help us to negate mortgage weakness. Do you expect it to bounce back in next two quarters or so?

Vipul Khanna: Yes, as I mentioned the talent situation we'll start to kind of get ahead of as this quarter goes by and next calendar year comes in. Second, the pipeline is good, the demand pipeline seems to be strong in the UK, BFS. I'm excited by a couple of transformational deals in the play, coming up into their final stretch. So, we should start to see strength coming back into UK BFS in Q4.

Dipesh Mehta: Understand. And last one clarification, you indicated services and origination mix is 1/3, 2/3 right. So, it seems your servicing business also declined this quarter roughly around double-digit Q-o-Q?

Vipul Khanna: No, it was flattish, I don't think it's declined. It was flattish and that's why it kind of grew up as a percentage compared to the previous quarter.

Dipesh Mehta: Okay. I see. Because my number was indicating something. Thanks.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Vipul Khanna: Well, again thank you everyone for your interest and great questions as always. I think we gave you a good sense of how Q2 was and gave you a good color on how Q3 would be. I look forward to coming back and speaking to you again in a few months, and hope everybody stays well and healthy. Take care.

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