"FIRSTSOURCE SOLUTIONS LIMITED

Q3FY24 EARNINGS CONFERENCE CALL"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q3 FY '24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

On this call, we have Mr. Ritesh Idnani – MD and CEO, Mr. Dinesh Jain – CFO and Mr. Pankaj Kapoor – Head of Strategy and Investor Relations to provide an overview on the Company's performance followed by Q&A.

Please note that some of the matters that we will discuss on this call, including the Company's business outlook are forward-looking and, as such, are objects known and unknown risks. These uncertainties and risks are included, but not limited to what the Company has mentioned in its prospectus filed with SEBI and subsequent annual reports that are available on its website.

I now hand the conference over to Mr. Ritesh Idnani. Thank you, and over to you, sir.

Ritesh Idnani: Thank you and hello everybody. Thank you for taking the time to join us today to discuss our "Financial Results" for the third quarter of FY24. My name is Ritesh Idnani, and I am the CEO at Firstsource.

I will start today with an update on the progress we have made during the quarter on various initiatives under the "OneFirstsource" framework that I had detailed out in the last earnings call. I will then move to discuss our quarterly performance and outlook for FY24.

The OneFirstsource framework defines our blueprint for the strategy refresh across the organization and is aimed at driving top quartile revenue growth with improvements in margin over the medium term. During the third quarter, we have made meaningful progress across several of these initiatives.

Let me start at the outset by detailing our efforts on simplifying the organization design and realigning the leadership team:

As I had mentioned in the previous call, we have streamlined the organization's structure along four go-to-market business units to remove overlaps, establish clear accountability, and ensure faster decision-making. So, North America now has three broad industry verticals. Venkatgiri continues to head our Healthcare and Life Sciences business. We hired Vivek Sharma during the third quarter to head our Communications Media and Technology verticals with additional responsibility for the North America Banking and Financial Services verticals as well. Vivek has had an impactful career running sales globally at Infosys BPO and I am excited to have him with us. He will also oversee our build-out in the emerging geographies such as Australia and New Zealand. Europe remains a geographical business unit for better synergies across verticals and continues to be headed by Rajiv Malhotra.

Our service portfolio is now aligned into six capability units to identify wide spaces in our portfolio, build adjacencies, and improve client experience. Ashish Chawla, who built a strong EdTech practice for us from scratch, has taken over as the leader of our CXN consulting capability units. Arjun Mitra continues to lead our world-class collections practice. Back-office, which is typically domain-specific, is integrated to the respective market units. Besides these mature service lines, we are also seeing significant demand coming from emerging services such as Trust and Safety and Data and Analytics.

With the organization redesign largely over, the businesses are now moving rapidly in putting in place specific plans around the priority areas they have identified to drive growth in their respective businesses and building the next level of leadership to support their sales efforts.

Next, let me talk about our progress in bringing technology into everything we do. We are institutionalizing the process of evaluating how we can leverage technology in every proposal that we are participating to have a wider engagement with our client base and increase the share of wallet as well as the share of transaction and outcome-based commercial models. You will recall our deal win from ETS announced last quarter where we are engaged for both ops and technology services. We are currently engaged in several such discussions for similar tech and operations deals in both Europe and North America.

We are also expanding actively our partner ecosystem and have recently hired a leader to drive technology partnerships across the organization. He will also work on improving our existing services and developing new ones to support businesses in achieving higher growth. We believe that the quality of our client portfolio and our market leadership in chosen verticals are truly differentiated, and we continue to double down on our efforts to amplify the Firstsource brand amongst different constituencies, including industry analysts and advisors. We recently hired Aniket Maindarkar as our Chief Marketing Officer to lead our efforts in this area.

The passion and commitment of our workforce is our superpower, and we want to make Firstsource a great place to work for our employees and be an employer of choice. In Q3, our ongoing commitment to enhancing the employee experience within the OneFirstsource framework remained a top priority. We successfully maintained high employee engagement by conducting personalized interactions, doubling the one-on-one sessions, including 70+ town halls and several skip meetings. This concerted effort resulted in a trailing 12-month double-digit reduction in our attrition in Q3 even as we doubled our hiring to over 1,800+ candidates per month. We are also focusing on automation and deploying technology internally to improve our hiring process and make it more efficient and effective for new joiners. We also continue to work on a skilled refresh across levels and functions and expand our leadership training and development programs. There was a close to 25% increase in the average learning hours across our employee base during the quarter.

Finally, we remain laser-focused on optimizing our cost and driving efficiency. We have identified specific tracks to work on such as right-stopping the execution model, right-shoring of both production and support headcount, optimization of overheads, adoption of automation and AI tools to reduce time to deployment and improve speed to competency and benchmark our current contract commercials.

We are seeing a strong interest amongst our clients for our revamped go-to-market strategy and our increased engagement with them, especially to structure large transformational programs. We are also doubling down on reinvigorating our sales engine to build the foundation required for achieving consistent revenue growth over the long term. Our combined deal wins in the last two quarters are 30% higher year-on-year, and we exited Q3 with the highest ever pipeline in the history of the Company. This has encouraged us to left shift our investment plans. We intend to fund these investments mainly through internal cost optimization and efficiency as such, while the interplay of various puts and takes can have impact on our margins in a specific quarter, we expect that to be in a narrow band and we remain confident of a structural improvement in margins over the medium term.

In summary, we continue to believe that the discontinuities caused by the macro and technology shifts are opening opportunities which Firstsource is very well positioned to take advantage of, given the quality of our client portfolio and our market leadership in our chosen verticals. I am pleased with the progress we have made in Q3 in these areas we have identified for a strategy refresh. I am also encouraged by the early signs of this in our deal pipeline as well as the enthusiasm amongst our employee base that gives me confidence in achieving our target of top quartile revenue growth with improvement in margins over the medium term.

Q3FY24 Financial Performance

During Q3, our revenue grew 6.1% year-on-year and came in at INR16 billion. In US$ terms, the growth was 4.8% year-on-year and 3% quarter-on-quarter at US$192 million. In constant currency, our revenue grew 3.4% quarter-on-quarter after staying flattish over the first half of FY24. This is in line with our previous commentary in Q2 of a growth acceleration over the second half of FY24. EBIT margin was 10.7%. This is down about 60 basis points quarter-on-quarter from Q2 FY '24 normalized EBIT margin, but higher by about 134 basis points versus Q3 of last year. Our net profit was INR 1.3 billion and our diluted EPS was INR 1.84 for the quarter.

Let me now talk a little bit about our deal wins:

Deal Wins

We continue to participate actively in both the cost optimization as well as the process transformation agendas of our clients. We are also actively hunting for sole source opportunities both in our existing portfolio of clients as well as a new set of logos. The success of our strategy is evident in our deal wins in Q3, which was the highest in the last three years. Let me highlight a few notable deal wins:

- I am pleased to inform you that we have been selected by one of the top five banks in the UK, one of our longstanding clients for a large transformational deal. This would be one of the largest deal wins for Firstsource in the last five years and underscores the importance of the relationships we have built and the value Firstsource delivers to its clients. It's also testament to what we are trying to do on the cross-sell and up-sell side.
- We also won additional business from a leading utility Company in the UK, another existing client to provide core customer support.

- We continue to expand our footprint in one of the leading media and entertainment companies by adding new complex service queues.
- Firstsource won additional business from one of the large North American telecom and media companies globally, another existing client, to provide account management services.
- We expanded footprint and wallet share in one of the top five health care insurance providers in the U.S. for providing claims processing services.
- We also further strengthened our relationship with a large managed Healthcare Company in the U.S. with additional business for customer support and claims processing.
- We further strengthened the multi-decade relationship with one of the largest managed Healthcare and insurance companies in the U.S. with additional business for providing clearinghouse support services.
- And finally, we were selected by a leading online real estate player to provide support for its property management services business.

While the overall demand environment remains conservative, we stay focused on creating value for our clients and remaining disciplined on execution. Concurrently, we are continuing to work on scaling new sub-segments in our chosen set of focus verticals and selectively expanding our offerings to adjacent verticals.

Let me now provide you a deep dive into our Q3 performance and outlook for each one of our industry verticals:

Vertical commentary

A. Banking and Financial Services

In the 3rd Quarter, our BFS vertical was down 3% quarter-on-quarter and 5% year-on-year in constant currency terms, primarily due to softness and business volumes. As you know, this vertical comprises three broad sub-segments for us: mortgage, collections, and customer experience.

Mortgage

Our mortgage business was down sequentially and year-on-year due to the market cycle. While the broader demand remains sensitive to changes in mortgage rates both in refinance and purchase business, we continued with our efforts to weatherproof our portfolio by expanding our footprint in servicing, reverse mortgage and adjacent sectors of real estate.

We had notable success, as I mentioned earlier, with a leading online real estate player, which selected Firstsource as a strategic partner. We had also secured a significant size new campaign from a reverse mortgage lender, another existing client.

And finally, our efforts to bring in technology interventions into our sales propositions in the form of advanced automation and Gen AI is also attracting encouraging interest from customers.

Let me turn my attention to the collections side of the business:

Collections

While our collections business was marginally down, that was primarily because of the growing shift in execution to offshore. Our focus here has been to increase our footprint both geographically as well as expand into other industry verticals beyond Financial Services to telco, utilities, Healthcare and retail.

We are also working to shift our execution to offshore or nearshore, and we have made steady progress on all of these initiatives in Q3. For instance, in one of our large clients in the segment, our service footprint has expanded into credit card and back-office apart from the core loan collection business.

During the quarter, we also went live at one of the largest European banks where we are working with the collections business in the UK.

We added multiple new clients in the segment during the quarter as well as expanded our execution capacity in Mexico where we are servicing five collections clients from them. We expect growth to recover in Q4, even though the seasonal lift-up that we typically see is likely to be muted this year due to the reduced share of third-party collections.

Customer Experience (CX)

As you know, we are one of the largest CX providers in the banking and Financial Services vertical leveraging our healthy mix of locations for voice and messaging services to drive efficiency and deliver meaningful outcomes for our customers. We are seeing excellent demand from banks that are diversifying both their overall retail banking and commercial banking portfolio with market improvements.

Emerging segments

And last but not least, we are making steady progress in our efforts to broad base our portfolio in the banking and Financial Services side in areas such as risk and compliance, financial crimes, fraud, and auto finance. Overall, we continue to expect modest growth in this vertical in Q4.

B. Healthcare

In the 3rd Quarter, our Healthcare vertical was up 3% year-on-year and 5% quarter-on-quarter in constant currency terms.

Payer

This was driven by the payer segment, where revenue grew met the single-digit on a year-to-year basis and double-digit sequentially, led by ramp-ups across clients. While the macroeconomic environment has been relatively stable for health plans, they continue to explore more opportunities for cost optimization and acquisition to drive member expansion. We are seeing opportunities to partner with them to provide disruptive propositions to help them be more competitive and relevant to their member base across the entire value chain, whether it be enrollment claims, billing, appeals and grievances, etc. We are also in advanced talks for a few large, structured deals in this segment, including a couple of sole-source transactions.

Our strategy to focus on strategic accounts is playing well. We had two large deals in this space in Q3 from our existing clients that I have already mentioned. We also added a couple of new logos in this segment in Q3. We expect ramp-ups in these deals, which should reflect in healthy revenue growth in the fourth quarter as well.

We continue to also focus on building out our BPaaS offerings, and during the 3rd Quarter, we hired a dedicated person to drive our build-out strategy in this area. We are also seeing encouraging traction on Gen AI, where discussions are moving from POCs to live projects.

Provider

Revenues in this segment were stable sequentially and marginally higher on a year-on-year basis. Our focus here is to improve profitability by driving offshoring, as well as widening the service offerings. We have seen an uptick in the number of discussions with clients for offshore revenue cycle management. Our first such win was in Q1 of this year that's scaling up well. We have had multiple additional wins and are currently in conversation with several clients in this space. The current wave of technology-enabled disruption is providing an opportunity for us to take share from traditional revenue cycle management players who largely build a people-based business.

Overall, we expect good growth momentum in the Healthcare vertical in the fourth quarter as well, largely driven by the payer segment.

C. Communications, Media, and Technology (CMT):

Our CMT vertical grew 10% quarter-on-quarter and 2.6% year-on-year in constant currency terms, driven by ramp-ups across multiple clients, offsetting the drag from the onshore to offshore transition underway in our top client.

As you are aware, our client portfolio in this vertical comprises some of the leading names and global brands in telecom, digital media, EdTech, consumer tech, and the E-commerce space. We have a sharp focus on three core segments: growing our B2C support, building our B2B presence, and systematically investing in building our capabilities and expanding our client base in the born-digital new-aid segments. We are encouraged by the progress thus far and the traction we are seeing with our pipeline conversions.

Our engagement with ETS is also scaling well. In October, we went live with our first global capability center for the EdTech vertical in Hyderabad with multi-disciplinary skills in the areas of assessment operations, data analytics, and emerging tech. We continue to expand our footprint in the university and EdTech provider space globally with solutions that help transform all facets of the learner experience from admissions to graduation.

We also expanded our partnership with a marquee consumer tech Company in training their AI tool, leveraging our AI Ops framework. In Q3, we also added another consumer tech Company as a client supporting their AI research team in localization of their chatbots.

We are seeing healthy momentum in our telco business where we had multiple wins, not just in our top client, but we also added additional lines of business with our top client in North America and adding three new logos in the telco space in the quarter.

Overall, we expect a healthy momentum in this vertical in the fourth quarter with ramp-ups in recent deal wins.

D. Diverse

And finally, I will round off with a quick word on our diversified vertical, which mainly comprises the energy and utility space. It grew 1.5x year-on-year and 14% quarter-on-quarter in constant currency terms. We continue to see a strong demand in the energy market, even as we make fresh inroads in our client base in this vertical.

Geographical Commentary

In terms of geographies, the U.S. was up 6% year-on-year in constant currency terms, while Europe was flat mainly due to the optical impact of on-site to offshore shift in our top client. Sequentially, we had a well-rounded growth with the U.S. growing 3.3% quarter-on-quarter, while Europe grew 3.6% quarter-on-quarter.

We expect the growth momentum in the U.S. to be continued to be led by the Healthcare and CMT verticals. Growth should be higher in Europe, where we are working with a dedicated focus on client acquisition across all verticals, as well as investing in beefing up our sales team.

Operations

On the people's side, we added a total of 1,994 new colleagues in Q3, bringing our total employee base to 25,947 employees at the end of December 2023. This is the highest net addition in the last 12 quarters and is across geographies. As you may note, we have added 16% to our base over the last two quarters, and this, in some sense, reflects our strength of our executable order book. The trailing 12-month attrition for the quarter was 33.8% at offshore and 43.3% at onsite, compared to 36.1 and 44.8% in Q2. We expect these metrics to trend down further in the coming quarter, though at a more moderated pace, helped by improved outcomes of our employee value-related interventions.

Progress update on GenAI

And finally, to give you a progress update on the Gen AI side, we continue to make solid progress on our Gen AI initiatives. Our library of use cases expanded to over 130 cases across industries that can be used to jump-start conversations. We have completed over 35 proof-of-concepts during the quarter. We are focusing our efforts on pre-built co-pilots that can be quickly integrated to live engagements. We are working extensively also to elevate our existing platforms and IP, leveraging AI.

Recognitions

And finally, on the awards and recognition side, I am proud to report that we achieved a score of 62 in the Dow Jones Sustainability Index in the very first year of our participation. This places us in the top 96 percentile, and amongst the top five within our peer group that includes both India-listed scale IT services companies as well as global BPO providers.

Guidance

In summary, I am pleased with our performance in Q3 of FY24. Our healthy order bookings during the quarter, as well as a good deal pipeline, sets us well for Q4. With nine months of the fiscal now over, we narrow our expectation for constant currency growth in FY24 to be between 0.5 to 1.5%, and our normalized EBIT margin to be at the lower end of the 11 to 11.5% range.

With that, let me turn the call over to Dinesh to give you a detailed color on the quarterly financials and related matters. Dinesh?

Dinesh Jain: Thank you, Ritesh, and hello, everyone.
Let me now walk you through some of the financial details;

Financial Performance

- Revenue for Q3FY24 came in at INR15,966 million or US$192 million. This implies a year-on-year growth of 6.1% in the rupee term and 2.8% in constant currency terms. I am happy to report that we have returned to the year-on-year growth in constant currency terms after contraction in the previous fourth quarters due to the portfolio changes in our Mortgage and Healthcare businesses.
- For the nine months of FY24, cumulative revenue was INR46,658 million or US$564 million. This implies a YoY growth of 4.5% in rupee terms and flat in constant currency terms.
- We reported operating profit of INR1,709 million in Q3FY24, up 21.2% over Q3FY23 and translate to EBIT margin of 10.7%, up 134bps on year-on-year basis. This is down around 60 bps sequentially from 11.2% we reported in Q2FY24, adjusted for a few one-time charges.
- As you know, we rolled out our annual compensation hike and promotion in Q3. We also saw higher costs related to ramp ups in some of the recent deal wins. We were able to offset this partially through cost optimization and efficiency gain resulting in the net impact of only 60 bps in Q3.
- For the nine months, our operating profit was INR5,132 million or up 34% over nine months FY23 and translate EBIT margin of 11%. Adjusted for one-time charge in Q2FY24, our EBIT margin in 9 months was 11.2%.
- Tax rate was 20% for the quarter and 19% for the 9 months which is within the range which we guided between 18 to 20%. Profit after tax came in at INR1,287 million or 8.1% of the revenue for the quarter.
- As you will recall, we have other income of INR598 million in Q3FY23 on account of a change in the fair value of the liability for purchase of non-controlling interest and also the contingent consideration on the acquisition. Adjusted for that, our net profit in Q3FY24 was up 18.5% year-on-year basis.
- For the 9 months, profit after tax was INR3,812 million. This is higher by 42% on a year-on-year basis after adjusting for the other income in the base.
- DSO came in at 62 days versus 66 days in the Q2. You may recall, we had called out that the spike last quarter was mainly due to delay in collections, most of which have been now subsequently collected. As a result of this and of course higher revenue, our cash flow from operations improved significantly in Q3.
- We stepped our CAPEX during the quarter to INR275 million as we prepared the execution infrastructure to fulfill the recent order wins. We have added new sitting capacities in Bangalore, Mumbai and Philippines during Q3. We continue to invest in creating additional capacity given the strength of our deal wins.

- We also use some of the cash generation to retire both working capital debt as well as the long-term debt during Q3. Our net debt stands at INR4,398 million as of December 31st, 2023, versus INR6,653 million as of September 30th, 2023, which implies a reduction of INR2,255 million during the quarter.
- ROCE for 9 months is 15.3% versus 13.4% for FY23.
- Our cash balance including investment stood at INR2,556 million at the end of the quarter.
- Our hedge book as of December 31st, which as follows: we have coverage of GBP 59.5 million for the next 12 months with an average rate of 105 to pound and coverage of US$82 million with an average rate of 84.4 per US$.

I am pleased to share that the Board of Director declared an interim dividend of INR3.5 per share on the face value of INR10 per share same as last year.

This is all from my side. We can now open up floor for the question. Operator, over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: I just wanted to pick your thoughts on a couple of things. Some of your peers as well as you have spoken about softer volumes compared to the initial client volume estimates that customers typically tend to provide through the course of calendar year 2023. Are you still seeing that play out or there is some amount of stability on that front? That's question number one.

The second question that I have is that some of your peers have spoken about insourcing that they have seen in a couple of instances. Are you seeing any signs or discussions around this front at any of your clients?

The third question was a clarification question. We have seen several leadership reinforcements over recent months, where are we in that journey now? Would be great to get your thoughts on that.

Ritesh Idnani: Thank you, Manik, for the question. Let me try and address the questions one after the other.

The first question that you had was in terms of what we are seeing in the macroeconomic environment itself, client spend, volume so on and so forth. Let me just start by saying we still see the macro duality in some sense still playing out. What I mean by that is on one hand, while clients remain cautious in the uncertain macro environment, we also find that they are actively moving on programs where they see opportunities for meaningful cost optimization not just by leveraging outsourcing and offshoring but by reimagining the process itself and bringing in elements of technology including AI and automation. We have seized that opportunity and continue to engage with both our existing clients as well as exploring new logos with solutions that create value for them. So, that duality in my mind is likely to continue either which way.

The second question that you had was related to the insourcing side. Actually, let me just take a step back and share with you how I see this trend in a larger context. The narrative for insourcing or global capability constructs in the last 12 months has moved from pure cost arbitrage to co-location and co-innovation. And here, there is a little bit of a paradox on one hand. Between 200 to 250 new centers are being established every year across various GCC hubs. Out of these about 55 to 65% are de novo. That is the enterprise is setting up their own centers, but the rest are provider assisted. And the newer provider supported global capability centers even in an in sourced environment our focus around collaboration, around cutting-edge tech and proxies, but what we're also seeing is a growing number of clients who are exploring divestitures of their offshore capital. In fact a number of such cases today is almost 5x of normal years and even more than what we saw post the global financial crisis. Part of this has to do with the impact of higher interest rates on working capital and thereby expensive debt servicing which is pushing companies with global capital footprints to consolidate and divest to free capital itself.

The other part has to do with the advent of AI and the uncertainty around its impact making companies rethink their entire strategy of deploying large pools of resources on their roads. As Firstsource what we are trying to do is to position ourselves to take advantage of both these trends. We've created a comprehensive playbook when clients want to in source that has components of design, build and operate in partnerships with real estate firms, global talent agencies, and legal and regulatory advisors. This makes it easier for us and clients to get off the ground quickly and reap the benefits of colocation and co-innovation. We've also set up a team to focus on divestitures, especially in sectors we operate in and the geographies we operate in or on our radar itself.

So, we think a combination of both of those allows us to take advantage of either the insourcing flat setting up for global capability centers or on the other hand it allows us to take advantage of what might play out in terms of captive divestitures itself.

The third question that you had was related to the leadership and the off design and so on and so forth. We've rolled out the new org. structure effective from first of Jan. Portfolio alignments as I discussed in my initial commentary at the market and capability unit levels have happened. We're now firmly in execution mode. Having said that look there are still areas where we continue to explore the right talent. We'll keep making interventions as and when we see a requirement itself.

Manik Taneja: If I can pick your thoughts on one more question. You spoke about both an interest and push from our end to sincerely we drive more offshore delivery across some parts of our vertical service offerings. What is driving that because historically the kind of work that we used to do in certain segments say for example on the provider side those used to be typically onshore delivery because of compliance or because of regulatory reasons. So, is there something else that we are trying to sell now on both healthcare as well as possibly on the collection side?

Ritesh Idnani: Let's talk a little bit about the healthcare segment itself. So, on the provider side I do expect that the buildup of enrollment will be gradual over the next 9 to 12 months, but on the provider side what we have focused on is on broad basing our portfolio. We are quite excited right now by the offshore revenue cycle management market where we believe that the current wave of tech led disruption is providing an opportunity for us to take share away from traditional revenue cycle management players who have largely built a people-based business.

Similarly, on the payer side our strategy to focus on strategic accounts is playing well. We had good wins in this space in the third quarter and we see a very healthy pipeline as well. Therefore, we expect good growth momentum in the healthcare verticals in the coming quarters.

Moderator: Thank you. The next question is from the line of Jalaj from Svan Investments. Please go ahead.

Jalaj: I wanted to pick your brains around the conversations around the highest deal wins. Could you talk a little about quantification of the numbers or the order book, how it does look like?

Ritesh Idnani: We do not get into specifics around the numbers yet in terms of the deal wins or the size of the pipeline itself, but what I want to talk a little bit about is the pickup in our deal wins that you see whether it's in terms of the fact that our deal wins in the third quarter were the highest in the last three years or the fact that we exited third quarter with the highest ever pipeline in the history of the company. It's simply the result of the rigors that we've brought in our engagement with all our clients. What we are doing differently now is to participate more proactively in both the cost optimization and the process transformation agendas of our clients.

We're actively hunting for sole source opportunities, both in our existing portfolio of clients as well as the new set of logos. And we are finding clients responding favorably to our efforts which is therefore then translating into the strength of our deal wins and pipeline. What you also will see is in terms of profile these deals are across the board. In example, in Q2 we had a large deal in the EdTech sector which was essentially a new logo. In Q3, we got a deal from our large financial services plan which was one of our existing customers in space.

This kind of stuff in some sense is reflective of how we are going to market and the fruits of the rigors that we're deploying in the process how that's yielding results for us.

Jalaj: And one last question maybe so you touched upon the top quartile growth, so what sort of peers are we comparing the growth rates to?

Ritesh Idnani: So, that's a good question. I think what I would do is when we come back in at the end of Q4, I will be providing more detailed commentary in terms of what the top quartile revenue growth will be as well as talk a little bit about what those numbers would look like in terms of either the revenue side or in terms of margin itself because a lot of this is not just about the current quarter or the near term, but it's also about how we are building a business for the medium to long term itself so that we can continuously outperform itself.

Jalaj: And one last question if I may. So, when do you expect the BFS vertical to pick up per say seeing the basically the discussions with the clients we are having right now and any sort of improvement in terms of operating leverage and since we are spending a lot in the terms of technology and seeing the growth in top line, so when do we expect it would reflect?

Ritesh Idnani: So, let me talk a little bit about the financial services vertical and then talk a little bit about the margin side.

If you look at the growth that we're seeing today in our financial services portfolio, we won a large deal for instance with an existing client in the UK which is in the financial services space and that in some sense reflects resilience in what we're seeing in the portfolio itself.

What we are also seeing as a secular scheme which we think bode well for us is where clients are increasingly looking for service providers who offer an integrated capability across front office and back office so that they are truly end-to-end from a domain standpoint. This actually plays well for us because we are one of maybe a handful of providers who have that end-to-end capability; most players end up over investing on one area or the other.

If you look at the mortgage space in particular the trajectory for 2024 suggests, based on all the commentary that I'm sure you read as much as I do that there is likely to be an easing of mortgage rates which should increase the refinance demand.

What we are however doing though and this is this is more important than anything else, we are deeply engaged with our clients to help them build a search readiness playbook with the right mix of people and digital / AI intervention and as we have been broad basing our service portfolio we are not just talking to the mono liners in the mortgage space, but we are talking to mid-tier regional banks as well as broad basing our portfolio beyond origination to servicing and HELOC and other segments of the real estate sector.

We are also seeing growth in our Fintech space and our collections business is a great hook there to land in the Fintech spaces as well as especially if you take a lot of the BNPL players in the segment. A lot of them are dealing with the large collections portfolio and our world-class leading capability in collections certainly is helping in that regard. So, there are a number of things that we feel good about in the context of our current capabilities and how they're geared up for the financial services space itself.

Now the question that you had related to margins and what we end up seeing. One of the things that I talked about right upfront in the context of our commentary is we are investing in building a deal funnel as well as refreshing our sales engine. Our intent is to fund these investments mainly through internal cost optimization and efficiency gains and while we may see minor impact on our reported margins in a specific quarter itself, we remain confident of a structural improvement in our margins over the medium term. The fact of the matter is, I mean, if you just take two data points into account, we had the largest set of deal wins last quarter and we also exited the quarter with the highest pipeline ever in the history of the company.

Just put those two things in perspective. It means that when these deals land and we hire people, there is a cost of growth that's going to come about and that's going to be playing out in a quarter itself. Now while we try to optimize for that through internal cost optimization and other efficiency initiatives that we are constantly working on, it could still result in a blip on quarter-to-quarter basis.

Our intent is to make sure that we're building a resilient and durable business with margin improvement over the medium term. So, that's probably the way to think about it.

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

Shradha: Two questions here, Ritesh. First is you've indicated kind of increased offshoring trend in certain segments of businesses like Healthcare and Collections. So, do you see this as a risk to revenue just like we saw 300 bps to 400 bps headwind to revenue in FY24 because of higher offshoring from our top client in CMT vertical?

Ritesh Idnani: No, I do not see this as a risk. What we are seeing is two sets of things. On the one hand, we are seeing a propensity to move offshore and near shore in some of our clients potentially being an opportunity where we can take additional volumes from them. We're also seeing the amenability on their part to look at that part of the business from an offshore standpoint benefit us.

As we broadened our portfolio on the provider side as an example and we started playing in the mid-to-back end of the revenue cycle side a lot of that work gets done offshore. So, naturally there's a tendency to move to work offshore as opposed to otherwise. We feel good about it if anything else between the locations that we have today in the mix, our ability to service whether it's our healthcare clients or our collections clients, our location makes across onshore, near shore and offshore positions us really well and actually in a way having locations in country in the US and UK in our minds it's going to be a net positive over the long run medium to long term.

Shradha: But from a more near-term perspective getting into next year, do you see this more as a headwind? I'm talking more from a near term perspective.

Ritesh Idnani: No, we don't see it as a headwind.

Shradha: And secondly while you've narrowed your guidance band for FY24, the ask rate CQGR still is very wide from 2% to 6% to get to the top end and the low end of the guidance range. So, at this point in time just wanted to check your comfort on whether you are more comfortable being at the lower end or at the mid end given the fact that you don't expect the usual seasonality in the collections business that plays out every year to happen this year?

Ritesh Idnani: Look I will only say this we do not specifically provide guidance on any specific quarter. So, I'm not going to comment on the math that you just provided. But having said that let me just reiterate the following: we had a good set of deal wins in the last two quarters that are in various stages of ramp up as we speak. You can also see this in the net headcount addition numbers as well as the facilities build out that we're doing. We feel good about where we will end up at the end of the quarter and for the full fiscal itself on the back of that. So, our purpose of narrowing the band was to give you more color as we approach the end of the quarter itself as you start looking at where we might end up for the full fiscal itself.

Shradha: And just one more question, I think you indicated that we did see some decline in our mortgage business and this has come after 2-3 quarters of stability that we had seen in the previous 2-3 quarters. So, could you just highlight what exactly happened because if I recall well, you had indicated that if kind of reached the bottom in mortgage revenue. I mean most of your clients have reached that the bare minimum of mortgage revenue that they can be at. So, from that perspective would we not be expecting a gradual ramp up each quarter?

Ritesh Idnani: Look, I am not too perturbed about what you might see as a marginal drop quarter-on-quarter in the business itself in the mortgage business as you are aware that business is down in the high single digits for us as a percentage of revenue, number one.

Number two, we feel very comfortable with the deal wins that we've had in this space and the ramps that are happening as we speak. We also continue to have an active pipeline in the mortgage side and our leadership position in this space augers well for what's coming down the pie. So, if nothing else actually we are playing on offense out there. We have created a search readiness playbook which we think boards well for as and when the Fed chooses to relax interest rates as well. So, overall, I wouldn't read anything into what you might have seen as a minor aberration one quarter to the next.

Shradha: Any quantification around how much does mortgage contribute to overall revenue now?

Ritesh Idnani: We're not getting into specifics of numbers, but what you can see is that it's not material enough that it should matter to the portfolio and that's the bigger point that I want to highlight out here is I think again as in our endeavor to build a business which is resilient and durable, we want to make sure that we take some of the macro discontinuities away from the way we're growing the business itself. That's the reason why we're continuing to broad base our portfolio. That's the reason why we feel that how we are putting the foundational blocks in place sets us up well for top quartile industry growth.

Moderator: Thank you. The next question is from the line of Nikhil Choudhary from Nuvama. Please go ahead.

Nikhil Choudhary: My first question is on deal wins, so just want to understand which segment and which geography is driving this growth. And second thing is regarding growth in being 30% for first half and when headcount growth being 16%, is it fair to assume that between ACV and TCV. ACV growth is more or less similar to head count while TCV is growing much more faster?

Ritesh Idnani: So, let me respond to the first part of the question which is where have we seen the deal wins itself. The deal wins are broad based across industry sectors. So, we've seen that across industry verticals and across geographies. So, if you look at growth that we are experiencing both in the US and Europe and in the European markets, we see the deal wins playing out. Similarly, we also see the deal wins playing out across financial services, healthcare, communications media tech as well as our diversified portfolio itself.

I don't want to specifically comment on the TCV, ACV math because deals have different timelines. They're not necessarily drawn out in the manner that you might have been drawing a conclusion out there. What I think you should take away is the fact that we've had two consecutive quarters of meaningful headcount addition and that in some sense is a reflection of the strength of that executable order book itself. So, the very fact that we are adding headcount supported by the fact that the deal wins continue to go up and last quarter was the highest deal wins that we've had as well as the pipeline that is there. I think these are all I would think as lead indicators in terms of how it's likely to play out from a revenue standpoint as well.

Nikhil Choudhary: On similar line basically our deal wins tend to be very strong, but in a scenario where mortgage volumes comes back, that will be more discretionary and still not captured in this deal wins?

Ritesh Idnani: So, it's a good question. I'm going to give you two different perspectives.

A lot of the independent mortgage companies that might be there, the mono liners who only specialize in mortgage, a lot of them may still be looking for a capacity in terms of how they ramp itself. As and when the origination volumes do come back, I would expect that it won't be discretionary, but they're looking to potentially build out the business for what's likely to play out. I mean, sometimes these things are in a cycle. The next cycle that ends up playing out where interest rates are coming down creates a market move towards maintaining a certain threshold of people to support that volume itself. What I do expect is, the way we are preparing ourselves and what is resonating with our customer base is the fact that we can provide a combination of a people plus technology solution a nonlinear capability to help them ramp up to what might come down the pipe.

Let me give you an example of that. Take underwriting, which is one of the key areas in the mortgage value chain itself, the ability to have a digital underwriter as an example. Leveraging AI along with the human in the loop is going to be a differentiated capability for organizations to ramp up as volumes come back and I think these are the kinds of opportunities that we feel very good about.

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

Dipesh: Couple of questions. First, in collection business, you indicated we are not expecting usual seasonality in Q4. So, can you help us understand what is changing in the business or why it is not happening usual seasonality, but you indicated obviously growth to happen, but not the optics seasonally which we usually see.

Second question is about top client, top client did well this quarter despite off sources. So, just want to understand what led to it and whether it is because Q3 is generally higher volume quarter for that client whether it is usual seasonality or something more to it?

Third question is about the EBIT margin, now it is down 60 bps and we alluded to some of the reasons like salary high promotion, ramp up, but obviously there is an offsetting factor of significant offshore shift. So, considering all these factors put together it seems revenue is growing broadly in line with the way you expected, margins seem to be lagging. So, if you can provide some sense around how one should look at?

And one question on other income side last quarter we indicated that non-controlling interest related and contingent reversal largely behind, but again this quarter we are seeing some movement. So, whether this is the last quarter, or do you expect it to continue?

Ritesh Idnani: So, let me start by talking a little bit about the collections for business itself.

First and foremost, we continue to see significant traction in our collections business across first party collections, third party collections and legal collections. It's a world class capability. We continue to add significant clients as well as consolidate our position with several of the top banks that we are the number one collections provider for. We've added several new clients in this space particularly in the Fintech side as well. When I talked about the fact that the seasonality in Q4 may not be as much as what we typically see, we still expect the strength of what we've seen on the headcount as well as the deal wins itself should bode well in terms of what reported growth should look like in general.

Related to the top client, we don't typically talk about a specific client itself and what played out there, but what I do want to say is that we continue to actively engage with all our large clients, and we are continuing to seek and gain new business from them. So, I think you're going to see that as a secular theme just by virtue of the engagement that we are seeing with them itself. I'm going to give a headline message on the EBIT and then I want to call Dinesh to comment on the EBIT and the other income side.

One of the things to bear in mind is that we are investing in building our deal funnel as well as refreshing our sales engine. We are continuing to fund some of these investments mainly through internal cost optimization and efficiency gains and therefore while on one hand we may see minor impact one quarter to the next on a reported margins, we do believe in the medium term this business is set up for a structural improvement in margins itself.

So, on one hand, you may see cost of growth playing out in a particular quarter, but I wouldn't read much into that. So, I actually think from that perspective we're still very much on track for the guidance that we provided last quarter as well as what we reiterated at the beginning of my commentary for the current quarter of where we will end up on the EBIT margin side. So, we will still be in that 11% to 11.5% range that we had talked about as well. Dinesh, you want to add anything further to that.

Dinesh Jain: No, I think you're right. I think most of the efficiencies are also part of the overall operating margin which we are showing, and I think the cost of increments are higher; it's almost 120 to 130 basis on account of increments and promotions in Q3 and once you offset with some of the efficiencies, the net is 60 bps.

And Dipesh on other income, you're aware that last year we had two of the acquisitions where the contingent consideration did not got paid and that were part of the other income. So, you can see INR60 crore was the other income in the Q3 last year which in Q3 of the current year is a much smaller number of around 13 crores and is more on account of one of the transaction in the mortgage businesses.

And going forward we don't see any major other income coming in the coming quarters. There will be a last trench in March 31st, but the number will be very small.

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

Rahul Jain: On the BFSI front since we are still kind of a seeing a cut down. So, when we say that we want to grow into leader quadrant, do you think outside of this vertical it would be practical, or you see a lot of hope in revival in the growth for this vertical as well going into FY25?

Ritesh Idnani: Let me just break this down into different areas where we are seeing the demand. So, we do believe that BFSI will continue to grow and be a meaningful part of our portfolio itself. The work we do on our customer experience side today across a bunch of banks and Fintechs and so on and so forth is certainly something that is differentiated, and we believe that that allows us to keep expanding and taking a share in that space itself.

Our collections capability is world class and also differentiated because there's nobody else in the market who has that end-to-end capability across first party collections, third party collections and legal collections powered by a digital collections platform that we bring to bear from an IP perspective.

Third, if you look at the specific processing capabilities that we have built along different asset and liability lines in the financial services space whether it's mortgage, consumer loans, the deposit side of the house specific capabilities around KYC, AML, financial crimes, fraud, etc. We believe that all of these areas continue to grow at a rapid clip itself.

Our ability to bring all of these capabilities under one roof to customers creates the opportunity for us to build a story in all the markets in which we operate. Therefore I feel that we have a full arsenal of capability, we have a lot of the clients base that is there and our opportunity, if I go back to the one first source framework that I talked about, is how do we continue to just cross sell and upsell into these accounts itself and that that to me is the piece that we are working hard on and we're seeing some good green shoots of the same.

Moderator: Thank you very much. We'll take that as a last question. I would now like to hand the conference back to Mr. Ritesh Idnani for closing comments.

Ritesh Idnani: Thank you all firstly for joining the call and for your questions.

I just want to close out with a few final points. I'm satisfied with our progress on the strategy refresh under the OneFirstsource framework. We're seeing a very strong interest among clients for our revamped go to market strategy and we're engaging actively with them especially to structure large transformational programs. As you can see this is reflected in our deal wins in Q3 which were the highest in the last 3 years even as we closed the quarter with the highest ever pipeline in the history of the company.

We're also executing well and our headcount addition in Q3 was the highest in the last 12 quarters. This has boosted our confidence in the medium-term growth outlook and as such we are bringing forward some of our planned investments. We intend to fund these investments primarily through internal cost optimization and efficiency gains and while this may have a minor impact on margins in any specific quarter, we remained confident of a structural improvement in our margins over the medium term. That's all from our side. We look forward to interacting again with you in the next quarterly call. Thank you.

Moderator: Thank you very much. On behalf of Firstsource Solutions Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.