RP - Sanjiv Goenka Group
Growing Legacies

firstsource

9th February 2023

To:

National Stock Exchange of India Limited (Scrip Code: FSL)
Exchange Plaza,
Plot no. C/1, G Block,
Bandra-Kurla Complex
Bandra (East),
Mumbai - 400 051

BSE Limited (Scrip Code: 532809)
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

Dear Madam/ Sir,

Sub: Transcripts of the Analysts Earnings call conducted after the meeting of Board of Directors on February 3, 2023

Please find enclosed the transcripts of the Analysts earnings call conducted on 3rd February 2023 for the meeting of Board of Directors held on 2nd February 2023.

This information is also hosted on the Company's website, at https://www.firstsource.com/investor-relations/

The audio/video recordings of the Analysts earnings call are also made available on the Company's website, at https://www.firstsource.com/investor-relations/

We request you to take the above on record.

Thanking you,
For **Firstsource Solutions Limited**

POOJA SURESH NAMBIAR
Digitally signed by POOJA SURESH NAMBIAR
Date: 2023.02.09 18:59:22 +05'30'

Pooja Nambiar
Company Secretary

Q3 FY2023 Earnings Call Transcript – December 31, 2022

CORPORATE PARTICIPANTS

Mr. Vipul Khanna - Managing Director & Chief Executive Officer

Mr. Dinesh Jain - President and Chief Financial Officer

Mr. Ankur Maheshwari - Head Investor Relations

Ladies and gentlemen, good day and welcome to Firstsource Solutions Limited Q3 FY23 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 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 Michelle. Welcome everyone and thank you for joining us for the quarter ended December 31st, 2022, Earnings Call for Firstsource.

On this call, Mr. Vipul Khanna - MD and CEO and Dinesh Jain - CFO will provide an overview of the company's performance followed by Q&A. Do note that the factsheet and the presentation has been emailed 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 report that are available on our website.

With that said, I now turn the call over to Mr. Vipul Khanna to begin the proceedings.

Vipul Khanna: Thanks Ankur. Good morning, good evening, everyone. Welcome and thank you for joining us today.

I am pleased to share that our revenue and operating margin for Q3 were in line with our expectations. This quarter, our revenue was nearly flat with 0.3% degrowth year-on-year in constant currency and came in at INR 15,049 million or $183 million. Organic revenue excluding the impact from mortgages and acquisition grew by 18.6% year-on-year in constant currency.

Operating margins have improved by 100 bps over Q2 and came in at 9.4%. In Q3, we realized other income of INR 598 million due to the write-back of the variable considerations linked to performance of two acquisition and structured contract in our mortgage business. The variable payout thresholds were not met due to the adverse market conditions across the mortgage and collection businesses. EPS grew by 17.2% year-on-year and came in at INR 2.25 for the quarter.

As we come towards the end of the year, we are narrowing our guidance range. We now expect revenue growth of -2% to -1%. Excluding mortgage and acquisition, we expect growth of 12.5% to 14.5%. We expect operating margins to land in the range of 9.25% to 9.5% for the fiscal year. We are on a plan to hit a normalized margin range in Q4 due to revenue growth and the net impact of our year-to-date cost actions.

I would like to reiterate that this year has been an outlier and the rapid changes in the broader macroeconomic environment made it difficult for us to predict accurate outcomes for our businesses. As we look forward to wrapping up this year and planning for the next, I continue to strongly believe that our business is very well-positioned to capitalize the growth opportunities in the medium to long term.

Our strategy have been and remain sharply focused on:

#1. Growth in our chosen vertical by building adjacent capabilities, systematic client acquisition and by growing existing strategic accounts.

#2. Strategic diversification within the BFS vertical and continued growth into the selected subsegments of Healthcare and Comms, media and tech, with the overall goal of building a less cyclical portfolio and driving the next phase of our growth.

#3. Leveraging our digital tools and services to create more cost efficiency for both our client and us with our 'Digital First, Digital Now' approach. For instance, we have launched a **'Managed Services' constructor for automation** which is being received well by our client. This is an all-inclusive solution from licensing, to building and maintaining automation and all the way to making automation sustainable within an enterprise.

#4. With the global economy battling the recession, we expect accelerated adoption of proven value levers of digital, outsourcing and offshoring by our client ecosystem and thereby resulting in significant growth opportunities for us.

Let me give you some industry commentary:

Our BFS vertical degrew -10.1% year-on-year and -14.1% in constant currency. Excluding mortgage and acquisition, the BFS segment has grown by 30% year-on-year in constant currency.

Mortgage:

The mortgage market remained subdued along expected lines. This business segment contracted by another 20% sequentially in Q3. We continue to believe that this market has systematic strength, despite the unprecedented correction this year. Housing demand is still strong and despite the mortgage industry focusing cost reduction, large gaps in profitability remain. In calendar year 2023, the mortgage industry has the unenviable task of bringing costs down further while prioritizing the right investment for future growth. We continue to be uniquely positioned to drive this shared purpose with our clients. Our end-to-end capabilities, broad client access and Pan-US licenses across the origination, servicing, title and default management enable us to customize and provide delivery locally as well as hybrid. Our sales efforts and pipeline continue to yield positive results with good closure in this quarter

Having said that the mortgage segment contributed only about 10% of our Q3 revenues and would be between 8.5% to 9% in Q4 from a peak of 31% in Q1 of FY22. Hence, any further sharp movements in this business are unlikely to have a material impact on our overall business.

Collections:

In the collection segment, recovery remains on track, but the pace is still picking its way up. Overall, US card-based delinquency grew steadily to 2.08% versus 1.85% in the last quarter and charge off were at 2.02% versus 1.83% last quarter. These are still lower than historical averages despite rising interest rates, high inflation and high outstanding debt by historical standards. This is primarily due to the still very low unemployment rates and the strong household balance sheet that the US has seen in the past 40 years. With the US economy slowing down and delinquencies expected to rise, we are seeing increased market activity and the clients need for capacity planning. Our deal pipeline for collection is at its highest and possibly the most diversified it has been across different sectors. In this quarter, we added 7 new clients across Fintech, Healthcare, Finance and Communication. Diversifying beyond credit card and BFS has been our focus in the last 18 to 24 months and we are pleased with this outcome.

The strong portfolio of early, late stage and legal collections underpinned by our market-leading digital collection platform and our strong win momentum this year all position us strongly to harness the likely volume growth over the coming quarters. While our early-stage segment has witnessed steady uptick over the last few quarters, we are now focused on strengthening the growth muscle of our legal collection segment. As we had mentioned before, legal collection operates at a lag from the early-stage debt and is still finding its bottom from the lower early-stage debt through the COVID cycle. As we start to see the uptick in delinquencies and charge- offs across our client ecosystem, we are ensuring that our legal collection business is ready to capitalize on the growth momentum ahead.

UK BFS:

I had shared that reinvigorating the UK business has been a fiscal 2023 priority for me. I am pleased with the progress we continue to make in our UK BFS, CMT, and the diversified portfolio. UK BFS continues to deliver strong growth. With the recent meaningful win, we now have top partner status with another top 10 retail bank in the UK. The demand environment, pipeline activity and digital adoption remained strong despite the political uncertainty and tough economic conditions. As BFS clients shift gears in cost efficiency, we see more opportunities, especially for digital and nearshore and offshore solutions. We expect this momentum to continue for the next year with a sharper focus on new client adds and more offshore business activity products.

Healthcare:

Our Healthcare segment continues to grow consistently at 17.3% year-on-year and 7.2% in constant currency. The rate of growth has slowed down due to some of the deal delays that we talked about earlier. Although the sale cycles has lengthened, the deal activity remained strong. We continue to execute on our strategy to focus on the top 10 health-plans, grow our digital intake business and create bespoke BPaaS solutions for the mid-market health plan. In the medium term, growth will be driven by vendor consolidation, acceleration of digital intervention across the care and plan, admin and value chain and the wider adoption of BPaaS solutions.

On the foundation of the pioneering BPaaS last year, we are seeing meaningful traction. We have been selected by another top 10 Medicare Health Plan for building their membership admin platform. This is our second BPaaS deal and we will be partnering with Product Company to deliver the solution. Once again, it was our domain expertise that helped us win against large integrated players.

On the Provider segment, there hasn't been a meaningful change in the outlook, the latest direction from the US administration is that the public health emergency provision on compulsory Medicare enrollment will end in April and the respective state government can take individual decisions on when and how to drop this requirement. As this states start to roll-off compulsory enrollment, we expect demand for Medicaid Redetermination Services to come. We continue to develop a digital solution to capitalize on this demand and we signed up with the first anchor clients for this offering. Structurally, hospital continued to grapple with significant hikes in the medical cost extending the buying cycle in our core playfield on RCM and other admin services. Longer term, it should lead to more outsourcing and offshoring by this industry.

CMT:

Our CMT business has delivered another strong quarter. This quarter, we grew 14.8% year-on-year and 17.5% in constant currency. We continue to witness steady growth from our top clients across their products and service line with a little skew towards outsourcing. I am pleased with the progress we are making in our US CMT segment and the momentum we are witnessing particularly in the tech segment. Our US CMT segment has grown by 63.8% year-on-year in constant currency. We launched our IDEA services which stands for Insights, Design Experience and Advisory leveraging our deep customer service experience to address the market opportunity of designing digital CX the pull through to ongoing run outsourcing. We have added four new clients this quarter including two major tech companies. Our focus on segments such as edtech and data integrity for machine learning are showing results. A few months ago, a global education testing player engaged us for a consulting assignment to design the customer journey and in operating model for the contact centers. That engagement has now involved a large scale build and run of their CX organization with the charter of improving the CSAT and increasing their market share. This was initially an IDEA engagement. As we plan for the next year, our UK CMT to provide a strong anchor and the US CMT, though small, would grow disproportionally to the company growth rate.

In summary, this has been clearly a difficult year. Having said that, I am extremely proud of the team of 23,000+ Firstsourcers who stepped up in these dynamic times and has helped offset the unprecedented decline in the mortgage business. We had to take some hard calls on our cost to create a more efficient operating structure. The momentum we have established in the non-mortgage businesses sets us up for strong future growth. Let me now hand over the call to Dinesh to cover details of some of our financial results.

Dinesh Jain: Thank you, Vipul. For the financial performance for Q3 FY23, revenue for Q3 came in at Rs. 15,049 million or $183 million. This implies year-on-year growth of 2.8% in rupee term and flat in constant currency term. On the margin front, operating margin came in at Rs. 1,409 million or 9.4% of revenue for the quarter implying a year-on-year margin decline of 267 basis points. Profit after tax came in at Rs. 1,579 million or 10.5% of the revenue for the Q3 FY23, a year-on-year margin improvement of 124 basis points. Our recent acquisition of Stonehill and ARSI, did not meet the revenue targets at the end of the earnout period which closed in December 2022. This has resulted in other income of INR 279 million in Q3. No further contingent consideration is payable on these acquisitions. We also have contingent payouts for mortgage client as part of our option purchase agreement closed last year. Basis the current visibility of the revenues against the target, the liabilities had been fair valued this quarter and that has resulted into other income of Rs. 319 million in this quarter.

DSO came in at 61 days versus 56 days last quarter. During Q3 FY23, we have generated Rs 800 million of cash from operation and our free cash flow was Rs. 653 million after adjusting for CAPEX of Rs. 147 million. We also had a closing cash balance including investment which stood at Rs. 1,927 million. Due to high DSO this quarter, operating cash flow and free cash flow are lower in Q3 and will get normalized in Q4. Net debt stands at Rs. 5,891 million or $71.2 million as of December 31st 2022 versus the Rs. 6,055 million or $74.4 million as of September 30th 2022. Tax rate for this quarter was around 14%, but we expect FY23, it should be within the range of 16% to 17%.

On our Forex hedging, we have coverage of GBP 38.9 million for the next 12 months with average rate of Rs. 101.5 per Pound and coverage of US$68.5 million with average rate of Rs. 82.6 per dollar. On our Forex hedging we have coverage of GBP 15.8 million for the 12 to 24 months with average of Rs. 102.9 to the pound and coverage of $9 million with average rate of Rs. 83.9 per dollar. In addition to this forward, we have also taken some of the option on these forwards to better our realization rates. I am pleased to announce also that the board has recommended an interim dividend of Rs. 3.5 per share or 35% for the financial year. Total payable expected on account of this going to be around Rs. 2,439 million.

With this, I will hand it over to moderator for the Q&A.

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

Mohit Jain: Sir, just two questions, first is on the mortgage business, so any thoughts there on the kind of volumes you guys are seeing say over the last two months or so and if you could share some outlook for next year on the mortgage business separately? And the second is on the margins, now margins clearly surprised this quarter, so what kind of recurring margins are you looking at and is there any onetime cost that we should be aware of from future standpoint?

Vipul Khanna: So, I think mortgage volumes continue to be soft, market volumes are low, our clients whatever reductions they had told us over the last several months, some of them continue to kind of act through. It looks like the interest rates peaked and they have been coming down for the past several weeks now and even you saw yesterday's announcement was at 25 basis points by the fed for rate increase which is the lowest in them since March, so generally the market sees that this should start to bring some of the buyers back into the market, especially as we come to the spring season and schools, etc., starts, some volumes to come there, but from what we have seen thus far and potentially up to the end of this quarter, we expect to see sort of weak volumes in the mortgage business. In fact, we do expect that our revenue for Q4 for mortgage will be lower than Q3. On the margin side of it, I think we made strong gains above the cost focus and the action we have done, and we do expect that by Q4, we will come back to our last year average of between 11.5% and 12% on a run rate basis and that should be a good base for us to kind of take forward.

Mohit Jain: Sir, can you repeat the margin for 4Q, you are saying we will get back to last year average?

Vipul Khanna: We think we will come back to a run rate of between 11.5% and 12%.

Mohit Jain: And then that will be new base for FY24?

Vipul Khanna: Yes.

Moderator: Thank you. We have the next question from the line of Dipesh Mehta from Emkay Global Financial Services. Please go ahead.

Dipesh Mehta: Couple of questions, first about the guidance, just wanted to get your sense about what this guidance implies from Q-o-Q growth perspective of our Q4? Second related question is, just want to get your sense about confidence on maintaining and sustaining Q-o-Q growth trajectory into calendar year 2023, if you can provide some perspective considering all the buckets of the business, how one should look Q-o-Q growth trajectory calendar year 2023, are we confident now, flattish or declining phase is over for us and Q-o-Q we should improve entering into calendar year 2023? Third question is about BFS, BFS segment margin is much weaker than what we used to operate in the past, mortgage has played some role, but if you can provide considering now mortgage weakness is largely behind, how one should look recovery in that margin?

Vipul Khanna: Dipesh, based on the revised guidance that we have issued, we think this implies to 1% to 5% quarter-on-quarter growth, we do realize it delivered at broadband, but it is a quarter where we historically see some seasonality is coming in from our collection business plus given the continued sort of situation we have in our mortgage and somewhat in the collection business, we think this is the right number to have at this stage. And in terms of calendar year 2023, if you are talking about the future, we are kind of right in the middle of the budget cycle and kind of gathering data from the market and our teams. So, something we will come back, but at this stage, given the fact that while we do expect mortgage will decline in Q4, we expect decent growth to continue in Europe. Collection obviously will be stronger, even the seasonality that we typically see from the tax reason. So overall we think, we feel good about what we forecasted in terms of Q-o-Q growth to deliver to the revised margin. On the margin for BFS, clearly as you highlighted, mortgage has taken a heavy toll on those margins, also there are sort of cost lags the revenue declines. We have taken some pretty hard actions across the cost structure that has crossed overheads, facilities, etc. We also had some impact from the margins of our ARSI acquisition. They were lower than us when we acquired, and we had shared that, and we expected their revenue to decline. The decline has been more than we anticipated because of the macro conditions and that has also taken pressure on the margins because that is a more fixed cost business. So once the volume comes back on the legal collections, we should see good gains on the margins of collections. These two have been heavy draggers on our margin for this year. Otherwise, the core collection business, digital collection and UK BFS had delivered strong growth and some of the cost pressures that we saw in UK from labour cost and fulfilment we seem to kind of coming at par with that. So that gives us confidence on the margins for Q4.

Dipesh Mehta: Yes, it helps, maybe we can get clarity once we finish the year.

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

Shradha: Congrats Vipul on a steady quarter, couple of questions, within mortgage what is the current mix of origination and servicing, and do we also do the home equity bit in mortgage?

Vipul Khanna: So, the mix of origination to servicing is now closer to 35:65, 35% origination and 65% servicing, so almost 1:2 between origination and servicing. We have seen some downward pressure on servicing as well, right as clients are pulled back and some of the onshore and offshore sort of cannibalization has happened. Some of our clients have started home equity line and we are supporting in that as they are starting those endeavours, yes, we have some early start in that home equity segment.

Shradha: Yes, because one of our competitors was talking about expected down take that we could see in their mortgage home equity portfolio because most of the harm that had to happen in origination is already done, so are we of the same view that origination decline probably would now get stalled and we would see more of servicing in decline in mortgage portfolio?

Vipul Khanna: No, I would think that the refi activity has obviously come down very drastically. There is still some purchase activity which was also for couple of quarters impacted with the high interest rate. The market expects that if interest rates stabilize and then it stays below the 5.5%, between 5% to 5.5% range, then we will start to see pickup in the home purchase market especially in hot geographies like Florida, Texas, some of those hotter markets, Colorado, etc. So overtime through this calendar we should see some of the return of the origination volume through purchase, not as much to refi**.** Home equity, I think this is a smaller business, we will see how that plays out for the consumer. The servicing business, I think has declined for us this year, but I don't expect any more significant decline on that from where we are because whatever cost actions clients took, they have taken the cost actions. Now, in fact, some of them are looking for like how I get out of it and look more offshoring and set of more structural solutions are in these tactical answers. So at this stage, I don't expect any significant decline in the coming year on servicing portfolio, but keep in mind as I said overall, the portfolio is now down to about 8% to 9% of our overall business.

Shradha: The other question is this time around, we saw improvement in margins that was mainly led by SG&A coming down, but on the gross margin it was actually still down 150 bps sequentially, so when we say that we expect 4Q margins to revert to the last year average quarterly run rate, so do we expect that to be led by improvement in gross margins or do you expect further cut off in SG&A that will help margin in the next quarter as well?

Vipul Khanna: So obviously, we've kept a very tight and very judicious line on our SG&A, both for run SG&A and for growth SG&A. Our gross margins obviously continue to be impacted by one, the reduction and two, the change in mix as well because in mortgage a bigger chunk of the reduction has happened in the more higher margin offshore portfolio rather than as much onshore, so it is the mix of sort of location also which had played a part and you have seen that our onshore percentage has gone up just by reduction, not that we have consciously chosen that business itself that offshore has reduced more. So that kind of put pressure on the margins. As we go into Q4, I think it will helped to have higher revenue, it will help to have the more profitable collection business kind of kick in, but I don't see disproportionate action between the direct cost and SG&A coming into the next quarter and we are confident of the receipting our 11.5% to 12% run rate from that quarter.

Shradha: And just one question if I can squeeze in, the other operating income has come up quite significantly, so is it more to do with the Forex loss or is there something else there?

Dinesh Jain: It is not the Forex loss, but as the rate has moved up, automatically forward rates become lower, so the realization will be gone into the revenue line itself than being other operating line. So there is no loss on a forward book, but the realization remains the same as the forwards which we talked in the last quarter.

Moderator: Thank you. The next question is from the line of Prabhu Dastari from Tattva Capital. Please go ahead.

Prabhu Dastari: I just had a couple of questions, so the first one being, do we see any challenge in recovering the receivables on the client side considering the increase in receivables this quarter, anything of that sort?

Dinesh Jain: No, there is nothing on that front, basically in the December quarter due to higher holidays, our process requires to take client signup before billing so unbilled is also high slightly, but most of the money which is overdue in December has been already collected in January.

Prabhu Dastari: And the second question is the other income of Rs. 309 million related to Sourcepoint acquisition?

Dinesh Jain: That is right, that is the option agreement which we have in the past with that one of the clients.

Prabhu Dastari: If that is the case, the expense that we recorded as an exceptional item in March 2021 quarter, but the gains currently we are showing in other income instead of exceptional items and why is there a change in the presentation?

Dinesh Jain: No, it is two different things. I think at that time of the transaction, the amount was very high and as was the exception called out. Now, with fair value accounting, all the fair value adjustment has to go through other income, so there is nothing that was exceptional. It is purely the way the accounting has to be done, so it has to be accounted, fair value adjustment has to be in other income.

Prabhu Dastari: Sir, we do not foresee any other gains apart from whatever we have seen or any other losses apart from whatever we have seen?

Dinesh Jain: As of today, when the fair valuation which we did, we see this is the amount going to be. It might be small adjustment may happen in Q4, but I don't see the bigger amounts coming in. All these transactions are closed.

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

Sachin Kasera: This previous query, you mentioned that you are guiding for 1% to 5%, now already in the month of January, one month has already gone in the quarter, so you still expect such high volatility in the remaining two months to guide for such large data about 1% to 5% for Q4?

Vipul Khanna: As I mentioned, collections is coming off a very unusual period, very uncharacteristic how collection has paid out in the last 18 months post all the COVID interventions which government has done, and personal financiers have gone through. Historically, it is high, we don't know how that will play out, so one, we are kind of watching it and keeping that range from collections and especially now our collection portfolio is also bigger after the legal collection acquisitions, so it is much bigger share of our overall revenue than just core collection business; two, some of the deals that we have closed in the previous quarters, we are kind of waiting to see how deal closures and implementation can pick up to see how much revenue we are able to book against that, so those are the two factors which have gone into it. Our Q-o-Q kind of appears like that, but if you look at it, that is why we have taken the call to reduce our range and brought it to -2% to -1% for the entire year as well as for the non-mortgage non-acquisition range.

Sachin Kasera: Second question is, when we look at your operating expense that has reduced from Rs. 344 crores in Q2 to Rs. 310 crores in Q3, so is there some one-off in that or is there some rationalization and is it sustainable?

Dinesh Jain: I think Sachin the operating expense is also one of the components on our legal collection business, so as the revenue drop that one expense line item is lower as well as Vipul talked about the cost actions which we have taken in Q1 and Q2 that has been seen now. So I think some part will be sustainable, some part depends on the revenue growth that may increase.

Sachin Kasera: Probably, closer to Rs. 30-Rs. 35 crores reduction we have seen sir, can you give us some sense approximately broadly how much is related to revenue decline and how much was related to the action that had been taken internally?

Dinesh Jain: It should be around 70:30, 70% almost like cost action, 30% is still linked to the revenue.

Sachin Kasera: And is this one of the reasons why we are guiding for a sharp improvement in the Q4 margins from 9.5% to 11.5%?

Dinesh Jain: Yes, I think we did talk that I think all the facilities actions take 6 to 9 months, so there are cost actions which got effective in Q3 and there are some more cost actions happening in Q4 as well as. I think that we are going to higher revenue side, automatically margin profile will improve in Q4.

Sachin Kasera: But are there any of the sections which will impact our long-term growth aspirations or investments for growth?

Dinesh Jain: No, I think is because the mortgage businesses have the access capacities and you will see the sharp down trend which have taken place, so we don't see that these actions are going to impact any of the revenue growth side of it, it is more of a cost which was excess which we have taken.

Vipul Khanna: And Sachin, just to add to that, look, we have taken a judicious call, kept a sharp eye on our operating expenses and SG&A, clearly we have had to do some trade off, so I will give you an example, our digital collection businesses are growing business, we are seeing good growth, so we continued our investment in the build of the platform on the road map, but since the provider was soft we took some calls to reduce the technology expense and further building that platform, so we have had to do some trade off given the revenue environment that we faced and as growth picks up we will kind of feature some of those expenses, but we have taken a call that are critical growth investments, we did not compromise on that.

Sachin Kasera: The next question sir, was on the net debt side, so 9 months we have seen a good reduction, what are your thoughts going forward in FY24 and FY25, we would like to reduce it further or would you rather have cash flows for growth or may be higher payouts?

Dinesh Jain: I think Sachin that working capital is the only debt which we have. We don't really have any long-term debts which we have taken and payouts you have already seen that what we are going to pay around Rs. 243 crores as a dividend this quarter and continue to the cash generation if put in for a growth for sure and what has been left out is always being adjusting to the working capital line.

Sachin Kasera: Just one question for Vipul, basis the acquisition that we have done, what has been our experience and what are our learnings, you did mention that few of them have not performed as per expected lines, so what are our key learnings and how do we intent to improve on that or we need to do any other acquisitions in the future?

Vipul Khanna: Yes, great question, so look both these investments were on a strategy that while mortgage and collection are cyclical businesses, we were consciously pursuing leadership in those segments, so legal collections extended collections outreach from early late stage to even legal, so that we can offer end to end for our clients, so to that extent, it did kind of give us a valuable capability. Likewise, the TSG acquisition extended our value chain from not just origination and servicing, but to QC and DD as well, quality control and due diligence as well, which started the capital market and gave us access to the mid-market segment. That was the business case. So that core hypothesis has played out, however, the timing of those acquisitions one could argue that once the market sort of softened significantly after that they were also impacted, potentially more impacted than when we anticipated and to that extent I think the structuring of our deal worked that we did not have to pay the variable consideration. Now, obviously it did cause more challenges to our forecasting through the years by and we kind of guided you on sort of how you had to take guidance down twice earlier this year, so this has contributed to that. So I think learning this about timing, learning this about really thinking through the worst case in terms of the economic environment on that and while I think the purchases are still valid and I think they will absolutely pay out in the medium to long term, at least from the forecast and how we kind of bake that into a number and kind of build our business around that. That is something that we need to do much better on that, but overall I think one of the other strategies that I have identified, I mentioned to you earlier is besides these businesses, we now need to build a portfolio of less cyclical businesses, so that will be a trust going forward that how do we bulk up some of the capabilities in that part as well.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: My question Vipul was that what is your guidance for fiscal year 24, you made some comments earlier about that which I missed?

Vipul Khanna: So, Rajesh, we haven't offered any FY24 yet, we just closed the guidance for FY23. FY24, we are in the middle of the budgeting and planning cycle, so as usual when we come back in end April, early May for Q4 results is when we will give guidance for next year. Directionally, I would say that demand environment is good, some of the businesses like mortgage, collections and providers which faced headwinds in FY23, those headwinds will ease off, so that will kind of remove some of the friction that we have seen in the growth in those businesses while our Europe and our healthcare businesses, they continue to operate in good set of demand environment as well as CMT. So that should continue in good stead.

Moderator: Thank you. There is a follow-up question from the line of Dipesh Mehta from Emkay Global Financial Services. Please go ahead.

Dipesh Mehta: Couple of questions, just want to get sense about healthcare business, now the growth trajectory seems to be softer than maybe we expected it the beginning of year, so if you can provide some sense what played out across payer and provider business? The second question is about the top client growth trajectory, it is doing well for last couple of quarters, so if you can provide some sense about the sustainability of this growth trajectory and what is driving it? Third question is about the new service which we mentioned IDEA, if you can give some sense about what we exactly try to do and what would be the mark potential you see? And last question is on M&A, do we plan to do let us say M&A in near future may be next 3-4 quarters or you largely believe now organic business is where the focus lies and M&A maybe incrementally, but not in near future?

Vipul Khanna: Healthcare business has been soft, HPHS has been on a strong trajectory last 2 or 3 years, this year also we are having good wins. One reason that the growth has been softer than we anticipated at the start of the year is mostly being delays, now that we have open 8 of the top 10 health plans, these are very big mature buyers, they have sophisticated buying processes, they are into their third or fourth generation sort of contracts, so their evaluation process tends to be longer and definitely longer than they themselves sort of articulate and guide in the set of buying motion they will end up and even after decision making because we are usually vendor consolidation or vendor switching, typically the implementation cycles are longer than if you were doing like first gen or an organic set of transition of sorts. So I think that has played a big role in terms of the delays in booking of the revenue. That is the one reason. Second, the trust of our business as we get into digital intake in BPaaS, these are longer implementation cycle, the volumes kind of incrementally come to you because you dependent on some of the technology implementations, so that is kind of the second factor that has kind of played out. Overall, I still feel very good about the healthcare business, the market is big and strong, not as much impacted by macro factors and now we have established good beachhead we have a focused strategy, so I could see good about the long-term prospects of HPHS.

Provider, we play in a very narrow segment and that segment was disproportionately impacted especially the eligibility business was disproportionately impacted by PHE and the fact that the PHE made Medicaid enrollment compulsory, so if the states were to get this federal funding they had to compulsorily enroll people in Medicaid and we saw some of the data coming through that the Medicaid enrollments through COVID went up something like 27% and that is mostly automatic enrollment and that impacted our volumes and now that we finally start to see that in the coming fiscal April onwards, states in a staggered manner will take off PHE, we expect some amount of normalcy as well as demand for the Medicaid Redetermination services coming up. So provider has been tepid through the years, largely impacted by PHE and the fact that we play in a narrow segment and we are focused on broadening that capability. It is a little bit of billed cycle that we are going through. We haven't seen meaningful results yet, but something we are focused on to make sure our goal field or the play field in which you operate in provider is broader, so that is first question.

Second was on our large client. We have seen a good strong year. We have grown across their product line, their service lines. As we look into the future, I think one, the UK label market continues to be tight and expensive, so we have seen in the last couple of quarter is strong growth offshore, this is good for margins, but as we see more of that sustaining through in the future, it will have some amount of onshore revenue cannibalization because it is lower yield but higher margin. So that is one factor which will play out. I think as we go into the next year on the large account where they are also grappling in a competitive market in a different economic situation where people need more support in some of those payments, as they have launched new programs and initiatives to deal with that we played an integral part in that which makes both of us pretty happy and sort of confident about the future relationship.

The IDEA is more a very focused consulting offering that we have launched to help clients design customer experiences. Since we do so much of the digital contact centers, it is taking those operating business learning, translating into a structured design and consulting framework to take it to clients. It won't be a massive revenue, but it is kind of tip of the sphere strategy like the example that I gave of the Ed tech company where through our consulting engagement we identified opportunity and when we won that opportunity competitively and that now gives us ongoing outsourcing revenue. So, you have seen that strategy play out in most of the players where you use that as the tip of the sphere, so consulted targeted consulting offering to open up, now get inside the tent and then sort of win the business.

Last question was M&A. So I think obviously we have taken some learnings, we have taken some time to consolidate these acquisitions. They have had some impact on our financial which I think we mostly work through as we come into Q4 and go into next year. So we obviously have our defined strategy of building adjacent capabilities in healthcare, some capabilities in CMT, some capabilities in parts of the BFS business. We will continue to absolutely evaluate both organic and inorganic sort of opportunities there. At this point, there is no conscious or a policy decision to do or not to do one of those, still, continue to keep our stand and look for the right opportunity and build our learnings from the last two as we go forward,

Moderator: Thank you. As that was the last question for today, I would now like to hand the conference over to Mr. Vipul Khanna for closing remarks. Over to you, sir.

Vipul Khanna: Thank you. Thank you everyone for your continued engagement, really enjoyed your questions and the deep understanding about our business and insightful questions that you asked. We feel good about Q3, we feel good about coming into Q4 and a look forward to coming back in April-May and giving you an update for Q4 as well as guidance for the next year. Thank you for your time and your interest and have a great day ahead.

Dinesh Jain: Thank you everyone.

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