

11<sup>th</sup> May 2022

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 May 5, 2022**

Please find enclosed the transcripts of the Analysts earnings call conducted after the meeting of Board of Directors on May 5, 2022, for your information and records.

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 Nambiar**  
**Company Secretary**

Firstsource Solutions Ltd.

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(CIN: L64202MH2001PLC134147)



RP - Sanjiv Goenka  
Group  
Growing Legacies



# Q4 FY2022 Earnings Call Transcript – March 31, 2022

## CORPORATE PARTICIPANTS

Mr. Vipul Khanna - Managing Director & Chief Executive Officer

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Mr. Dinesh Jain - President and Chief Financial Officer

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Mr. Ankur Maheshwari - Head Investor Relations

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of Firstsource Solutions Limited. As a remainder, 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 '\*' and 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:** Thank you Steven. Welcome everyone and thank you for joining us for the quarter and the year ended March 31st, 2022, Earnings Call for Firstsource.

On this call, Mr. Vipul Khanna – our MD and CEO and Mr. Dinesh Jain – our CFO will provide an overview of Company's performance followed by Q&A. Do note that the results, fact sheet and the presentation have been emailed to you and you can also view this on the website [www.firstsource.com](http://www.firstsource.com).

Before we begin the call, please note that some of the matters that we will discuss on this call including our business outlook are forward-looking and as such are subject to known and unknown risks. These uncertainties and the risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports that are available on our website.

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

**Vipul Khanna:** Thanks Ankur. Good evening everyone and thank you for joining us today at this late hour. It is a brightest morning here in California, but I should qualify that I am generally slow in this morning this early in the day especially for this high-quality audience.

**Let me just start it with a quick snapshot of the quarter gone by:**

Revenues grew 3.1% year-on-year in constant currency and came in at INR 15,439 million or \$205.5 million. Operating margins were 11.3% and EPS grew by 1.6% year-on-year. For the year gone by, we achieved revenues of INR 795.2 million implying constant currency growth of 14.6% in line with the recent guidance. Operating margins came in at 12.0% and the EPS at Rs. 7.6 grew by 19.4% normalizing for the exceptional charge last year. The higher increase in EPS is particularly heartening for us considering the inflationary pressures especially in the back half of the year.

Looking back on FY22, this has been a mix year. On the one hand, we are disappointed at underperforming to the guidance we set up at the beginning of the year. As we have discussed on past calls, a medley of macro headwinds impacted many of our businesses. On the other hand, we are pleased with our focus, our investments, and our progress in strengthening the foundation of each of our businesses. We believe this sets us up nicely for FY23 and beyond notwithstanding the impact from the expected significant decline in the mortgage origination markets in Calendar 2022.

The strategic focus that we established a couple of years back has 3 components –

- 1) Invest in our 3 core industries of Banking and Financial Services, Healthcare and Communication, Media and Technology, consolidating our leadership position in our chosen sub-verticals and systematically adding growth adjacencies to them.
  - a. Similar to BFS and Healthcare provider business, our HPHS business has now achieved leadership position in its targeted segment.
  - b. The acquisitions of TSG and ARSI have added valuable growth pools to mortgage and collections respectively.
- 2) Push forward in our digital solutions and services to take disruptive offerings to market in each of the industry.
  - a. Our offerings like digital collections, consumer debt and digital intake in healthcare are now recognized category leaders and growth drivers
- 3) Above all build a purpose-led scalable and agile organization.
  - a. This mission is steadily taking root and helping to attract world class talent and is more importantly resonating with clients as they progress on their own ESG agendas.

**Let me talk in detail about our segment performance and the road ahead:**

In financial year 2022, our banking and financial services segment grew 11.1% year-on-year and 9.7% in constant currency. BFS started out strong, but collections and mortgage faced macro headwinds, some anticipated and some unexpected. UK BFS held strong and grew steadily.

**Let's talk Mortgages:**

So, this fiscal year will be a year of sharp degrowth compared to FY22. We expect this business will stabilize by end of Q2 FY23. Mortgage rates has spiked dramatically since the last quarter on the back of the worsening macro environment. The 30-year mortgage rates today are close to 5% to 5.5%, the highest we have seen in the last 12 years. For perspective, this used to be around 3% in December 2021. This big movement in interest rate has significantly impacted the refinance market. Additionally, we expect it will also start impacting marginally buyers in home purchase market.

In reaction, our clients have been reducing origination capacity both in-house and with us and other partners and while we are actively aligning our cost structures with the revised demand, the sharp pace of decline and lacked impact on cost will lead to margin pressures in financial year 23. Nevertheless, the mortgage industry cost base is still very high for the reduced market volume. This will generate longer-term client needs for strategic cost solutions encompassing deeper offshoring, automation on field and back-office processes and digital point solutions. We are evolving our solutions to align with our client's current focus as we continue to invest for longer-term growth. So, for instance, we have prioritized specific accounts and have deeply engaged with them in crafting operating models for this new market cycle. I am encouraged by the quality of client conversation that specifically the appetite for strategic changes to their operating model in contrast to the breathless capacity augmentation approach of the last two years.

We have seen good traction for our post-close and the due diligence offering from the TSG acquisition. The services segment remain steady and also there may be some near-term pressure in revenues as clients reallocate excess REFI capacity to servicing. We also see additional opportunities from likely uptick in two areas, default servicing and securitization volume.

Sales efforts continue to yield good results. We added 4 new clients this quarter. Recognizing our strengths, portfolio size, market impact and competitive positioning, we are pleased that the Everest Group has recognized us as a leader in the Mortgage Operations PEAK Matrix 2022.

Amongst the volatility in the origination market, it is easy to lose the perspective that we have grown this business to almost 3x the size of what it was 3 years ago at the start of this origination cycle. We have provided historical data on market volume and portfolio mix in this quarter in IR deck. Normalizing for the refinance revenues for the last 3 years, we have built a solid core of servicing business and is sustainable origination portfolio side.

**For our collection business:**

We are encouraged by the momentum we are seeing. Macro indicators are pointing towards the return to normalcy. As per the recent data published by New York Fed outstanding credit card debt in January 2022 surpassed for the first time the highest debt 2019. Payment rates have begun to decline and the delinquency behavior is starting to come back. Delinquencies increased to 1.62% in the quarter ending December 21 versus 1.54% in the prior quarter. Please note this is the latest Fed report and we await for the March quarter data. As I mentioned earlier, we have been focused on the number of actions to strengthen this business by augmenting our state of leadership and capacity, enhancing the full scope build of our digital collection platform which is now reaching critical mass, and the diversifying into newer segments of Fintech and Utility.

To offset lower business volume, we aggressively secured new client wins in FY22. We added 11 new clients this year, most of these Fintechs, white labeling our digital collections. These wins will deliver their full year potential in FY23 and sales momentum is expected to remain strong in the year. As consumer spending and delinquencies continues to rise, we should start to see volume recovery in H2FY23 in the core card receivable management segment.

We closed the acquisition of ARSI last quarter, the integration is progressing as planned. We are fine tuning the operating model, adding more digital capabilities to their core platform. We have renewed the sales focus and the pipeline is building nicely. Cross sell opportunities are on in full earnest, in fact, in the last 3 months, we have already secured one cross sell win. As previously mentioned, the ARSI operates at a lower margin compared to rest of our business. We are working through the cost synergies and operating model and SGA and expect it to come closer to the overall margin by end of the year.

The UK BFS segments remain steady. In the past few calls, we talked about the talent supply challenges and their impact on revenue growth. We have strengthened our delivery architecture by opening a new satellite location in the UK to increase talent access and also targeted compensation adjustment. Over FY22, this segment delivered modest year-on-year growth and in FY23, we expect healthy growth from this segment. The twin impact of post pandemic economy and continued digital adoption is driving a change in demand to more complex higher value services such as broad management support, compliance transaction monitoring and complaints handling. We continue to add capabilities towards creating a comprehensive customer life cycle management to it. And while the talent situation in UK is structurally challenging, it also creates opportunity. Clients are now actively relooking at their location strategy for CX software. The UK financial services segment is slowing, but surely increasing with the usage of Chat as the CX-channel. This bodes well for offshore growth. We had two meaningful wins for offshore Chat this year. Lastly, strengthening our go-to-market efforts to drive new client wins is one of my primary focus areas for FY23.

#### **Shifting to Healthcare:**

In FY22, healthcare grew 28.4% year-on-year and 27.7% in constant currency. Our HPHS business maintained with strong growth trajectory. It has been consistently growing over the last 8 quarters. Q4FY22 revenues are more than 2x of the revenues which delivered in Q4FY20, all organic growth.

This business remains focused on landing and expanding into the top 10 health plan, digital intake, BPaaS solution for big market health plan and co-creating tele-health RPM solution with our clients. I am pleased that we are now participating and winning large complex deals leveraging our solution skill and platform. The growth trajectory of this business has validated the playbook of driving top quartile growth in a mature market by investing in leadership and go-to-market capability and by taking disruptive solutions to clients.

We are pleased that our efforts have also been recognized by experts. The Everest Group citing our 'Digital First Approach', disruptive solution and strong execution recognized us as the leader in the Healthcare Payer Operations PEAK Matrix of 2022 and we expect this growth momentum to continue in FY23 as well.

The growth in our provider business had been impacted over the last 2 years. COVID impacted consumer behaviors, hospital priority and disrupted the revenue cycle for healthcare providers and while the public health emergency has been further extended, we are seeing that hospitals are now far more opened to engage. The talent supply and cost challenges for this industry are acute and we sense the eagerness amongst clients to explore more strategic solutions. Earlier in the year, we renewed our focus and investment in sales, solutioning, and products, are now beginning to pay off.

During fourth quarter, we achieved more new wins than any other quarter over the last 3 years. Our strategy for this segment is to develop and integrate digital solutions for the RCM value chain, growing to geos in the US where we are under-penetrated and develop stronger capabilities in receivables management. We are pleased that we have been ranked number one in the 2022 best in KLAS software and services report and noted as a leader in the eligibility and enrollment services category. This report is based on the insights gathered from thousands of healthcare organization including direct feedback from our customers. We are now more confident of the provider business coming back through growth trajectory this year. With the continued strong growth of HPHS and the return to growth of provider this year, healthcare should be the flag-bearer for Company's growth in the coming year as well.

**Finally, our communications, media and tech segment continues to perform well:**

In FY22, this segment grew by 17.5% year-on-year and 12.5% in constant currency. Our largest client's business remains robust as does the health of our relationship. As I mentioned earlier, the UK talent supply challenges have necessitated the fine tuning of our client's location mix. We successfully transitioned a few complex operations from UK to offshore. This impacts revenue, but it is more profitable. Notwithstanding, in FY22, we delivered mid-single digit growth and we are confident of similar growth in the coming year given the ramp in progress and potential new opportunities. The rest of our CMP portfolio made healthy progress in FY22 growing by about 50%. In this quarter, we added 3 new accounts in fintech across CX, automation and brand safety.

**Finally, the last comment:**

The digital media market continues undergoing a massive change with the shift from print to digital and within digital, the shift from ad revenue reliance to more subscription-based models. Subscription revenues necessitate higher levels of customer engagement and innovative strategies for acquisition and retention. We are operationalizing tools to deliver personalized user journey resulting in greater acquisition and retention of subscribers. We are excited about this very meaningfully in this segment.

Considering the growth momentum across businesses and the macro environment, we are guiding to a growth of 7% to 10% for FY23. This factors in the reduction in the mortgage business and growth in the others. Just to put this into perspective, our organic growth, excluding mortgage and excluding acquisitions of Stonehill and ARSI, is expected to be between 18% to 22%. This is driven by go-live of recent wins across healthcare, BFS and CMT, pipeline buildup and conversion and gradual improvement in the business environment and the provider and collection market.



As we mentioned before, this success in building a more holistic and diversified book of business is the direct result of long-term investment we have been making in the last couple of years. For the year, operating margins are expected to be in the range of 10.5% to 11%. Margins will primarily be impacted by 3 key factors - the sharp decline of the mortgage business in the first half of FY23 as we work to align the cost structures with revenue. We do expect to see a recovery in margin in the second half of FY23 as this (mortgage) business stabilizes. Second inflation which is rising in the US and UK and is at the multi-decade high. While clients are receptive to price adjustment, there is again a gap in quantum and timing and third, the modest dilutive impact of our FY22 acquisition of ARSI.

FY23 will be a year of transition of our revenue composition. The business profile now is less volatile and provides a strong base for sustained high quality growth. We are confident on emerging stronger and delivering sequential growth from Q2 onwards and on normalizing margins by end of this year.

I will now pass over to Dinesh to cover the financial details.

**Dinesh Jain:**

Thank you Vipul. Here is a quick summary of Q4 FY22 financial performance. For fiscal FY22, our revenue was Rs. 59,212 million or \$795.2 million. This translates to constant currency growth of 14.6%. We achieved operating margin of 12% and PAT margin of 9.1%. Revenue for Q4 came in at Rs. 15,439 million or \$205.5 million. This implies a year-on-year growth of 5.5% in rupee terms and 3.1% in constant currency term.

On the margin front, operating margin came in at Rs. 1,751 million or 11.3% of the revenue for the quarter which is 3.2% degrowth on year-on-year basis and implies margin decline of 102 bps. Profit after tax came in at Rs. 1,324 million or 8.6% of the revenue for Q4 FY22. This is 1.2% year-on-year growth on normalizing with the margin decline of 37 bps. In Q4 FY22, we generated Rs. 1,119 million cash from operation. Our free cash flow was Rs. 855 million after adjusting for CAPEX of Rs.264 million. For full year FY22, our cash flow from operation was Rs. 7,870 million and free cash flow was Rs. 7,141 million. We declared and paid an interim dividend of Rs. 3.5 per share with the total outlay of Rs. 2,439 million in the last quarter. Our closing cash balance as of March 31st was approximately Rs. 2,084 million.

DSO came in at 57 days in Q4 versus 58 days last quarter. Net debt as of 31st March 2022 stand at Rs. 8,013 million or \$105.7 million versus the \$5,882 million or \$79 million as of December 31st 2021. Tax rate of the Q4 was around 15%, but for the year FY22, the tax rate was 17%. For FY23, we expect to be within the range of 18% to 20% for the year.

On our Forex hedging, we have coverage of £34.6 million for the next 12 months with average rate of around Rs. 114 to pound. Coverage for dollar for \$52.5 million with average rate of Rs. 79 to a dollar. Also, I think one correction which we have in the fact sheet which has been sent out to you all guys which is the onshore, offshore mix for Q4 as there is slight change in numbers which I think some mistakes there which we have rectified and uploaded on the website as well as I think has been shared to all of you guys through the mail. So, please note the same.

With this we can open the call for the questions.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Manik Taneja from JM Financial. Please go ahead.

**Manik Taneja:** Thank you for the opportunity. Appreciate to give breakup of Mortgage between Servicing and Origination in the deck. I wanted to pick your brains on what we have been hearing from some of your peers for this existing of very robust demand environment for BPM, saying that there are both larger deals, faster decision making in terms of client decisions what it used to be. Could you comment on what you think about this aspect? And is it just being driven by the underlying tight labor market condition? And the second one essentially is, if you could also talk about what proportion of your business comes in from the digital meter customer base and how that has been growing in recent times, would appreciate if you could talk about your strategy in this regard given the fact that you have been speaking about our focus on BNPL and Fintech customer base through the recent quarters?

**Vipul Khanna:** Manik, your first question was around the overall BPM demand environment outside of mortgage, yes?

**Manik Taneja:** That is correct, so I wanted to understand some of your peers have been talking about larger deals and faster than the usual decision making that we have seen on the BPM side because BPO seems to have been associated with longer sales cycles, if you could talk about what you are seeing in the market place?

**Vipul Khanna:**

I think in general, we are seeing as especially for this calendar year, I think the demand environment has certainly strengthened if you think about healthcare, if you think about CMT, banking obviously we play in segment mortgage and collections are somewhat unique, but for UK BFS, we are seeing good demand. Is it large and structured deal? yes, I think a little bit sporty, depends on the segment you play, but in general, I think the tactical opportunities that people had to do over the last 18 odd months, I think they are now done for. Now, it is more about stepping back and seeing the labor market, the cost situation and inflation, I think this is prompting a little bit of step back and think about more strategic deal and if I could comment specifically on mortgage while we are seeing sharp pull back in the current capacity, but that is kind of practical actions. What we are seeing is that the cost base is out of whack is the new reality and even that segment is stepping back and saying how do I now align my cost base more structurally and that invariably means more strategic outsourcing including all components of it and not just the capacity augmentation or passive growth. So, I would echo that the comment that you mentioned. On the born digital segment, we have two focus areas, one is around Fintech, both for our collection offering as well as broader and the second one is the digital media segment for now. The Fintech segment is growing very robustly. We want to take some collections and we are seeing other wins in back office and customer service. Obviously, this is dotted by smaller names, so the individual deal size are not massive, but BNPL segment, if I look at the progress we made in the last 6 odd quarters, we have built up a very nice portfolio of about 6 of the top 10 and some outsell of the top 10 as well. And I think that segment as the share of payment is increasing, so good progress there. This is one of the focus area for FY23 that how do we go beyond collection into more meaningful areas of Fintech including going into the crypto arena because that is going to sucking up lot of capital, lot of investments undergoing, consumer investments are going there, the demand for servicing there had grown up. We have had two wins in the crypto segment, small, but the onus is on us to build on that foundation and then digital media has performed really strongly. We have 3 wins this year and given going back to your performance about strategic, given the quality of solutions again I see good demand for strategic solutions on the regular media segment. We are currently narrowed on this two while we continue to work on the big tech companies. That is something which we continue to kind of stay in the market and try to find meaningful opportunities in the big tech space of the bondage design.

**Manik Taneja:**

And would you want to call out the proportion of our revenues from the so called digital related customer base currently?

**Vipul Khanna:** We need to kind of do some alignments. Right now, we run it in two segments, we run it in the BFS and we run in the CMT segment, so we need to kind of start to find a way of give out that cut of the revenue. I don't have it handy, but the other proxy for that, if you think about the digital revenues per se, from a service line perspective what we call as digitally empowered contact center, back office and platform and analytics. So, the platform and analytics portion has a good jump and for this quarter that was about 19% of the revenue, slightly different customer from what you are looking. This is more inherently digital solutions bought by companies across the sector.

**Manik Taneja:** And last one, basically this structural uptake in terms of demand is driven by the labor situation in your view?

**Vipul Khanna:** I think it is labor and coming out of COVID, when you done with the tactical action you already had digital going, it is now about stitching it together and starting to look at a broader value chain, a bigger portion of the operation, like for healthcare, we are currently working on two extremely large RSPs from top 10 plan which not only encompassed their existing portfolio with rest of the market, but also encompassing now other scope which has not been outsourced or has been considered more onshore centers. So, now we open as a near shore and offshore at the greater opportunity is to target the service value chain because earlier there were very clear distinction, I don't want to do it offshore, but now it opens up that as well, so yes, partly triggered by the talent situation, but technology and location adds with two dimensions for the scope of these.

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

**Dipesh Mehta:** Just wanted to understand our guidance for FY23, organic growth guidance, ex-mortgage acquisition, 18% to 20% is a healthy number, how we expect the trajectory of that number, whether we will see our steady ramp up across the quarter or you expect it to be more backended kind of thing, the reason for asking is some of the segments like collection business still not reach to normalcy level. Delinquency is increasing, but not yet too earlier level, invariably in provider side PHE got extended, so recovery may be bit delayed, so if you can provide how we expect trajectory to be, whether from Q1 onwards we expect normal growth sequential happening or it would be backended? Second question is about EBIT margin trajectory, we guided 10.5% to 11% for current year, but how we should look medium term Firstsource margin trajectory, whether this year is exceptional and we will return back to our normal margin trajectory entering into FY24? if you can provide some medium-term outlook for margin trajectory considering the business mix change would we expect to happen over next few quarters and investment plan?

**Vipul Khanna:**

Dipesh, given generally your questions and data, we have given you lot of data this time on the mortgage side, so there is full perspective, right on how it is moving. So, trajectory over the year, at an overall Company level, Q1 will be flattish because the impact of mortgage decline will kind of take away all the growth that will come from other sectors and we expect mortgage sort of will bottom out by Q2 and then start to stabilize and sort of have modest growth, that is just on mortgage for the year and its impact on the year. I think HPHS will be steady growth through the year, Provider is starting to pick up, but I think the volumes will pick up as we go to Q2FY23 and then more growth in H2FY23. UK BFS, I think will be steady growth through the year. Collections, I think have started out strong. I am cautiously optimistic that we will start to see growth little bit better from Q2FY23 onwards rather than all towards backended, but overall if I add up everything, the impact of mortgage and the growth in other sectors, Q1 will be flattish, it will start to pick up in Q2 and then we will see healthy growth in Q3 and Q4 from a revenue perspective. On EBIT, your instinct is absolutely right, this is a year of transition, we are replacing almost 10 points of our growth from mortgage with more steady sticky revenues, right, so there is a 10% switch of our revenue switching from mortgage to the more profitable one. This will weigh heavy on the first half of the year as far as margins is concerned, but we expect that by end of the year, this start to come back to our current level, so we expect to kind of get EBIT at about 11.5% to 12% by Q4 and then as we get to FY24, we should be back to our normal guidance of keeping it at that level and then starting give net sales of about 20 to 25 basis points on that level. Does that answer your question, Dipesh?

**Dipesh Mehta:**

Yes, it does answer. Now, just two questions, first about the top telecom account which we have, how we should look at that business growth because earlier you expected some supply side challenges, now you are indicating, to some extent we have find ways to mitigate it, but here would be deflation because offshoring is one of the way to take a lead, so considering all these moving item, how you expect top client to perform for us?

**Vipul Khanna:** As I said the year gone by, FY22, we got set of mid-single digit growth, net after everything, supply side challenges, movements to offshore, but also tested our new things from offshore which kind of opens up new vistas, I think that will be an important growth driver and then going into next year at this point we are forecasting, we will have similar set of both trajectory going into next year, FY23. I think the fact that the UK market is challenging that is forcing an element of reaching on the location strategy. We saw that in FY22, I think I am again cautiously optimistic that we will see more manifestations of that and open up more scope as far as different geographies is concerned and also now with our digital becoming more real and Chat especially becoming more acceptable as the main stream option, not for just emerging companies, but for mainstream large telecom and internet providers, I think Chat will become an important driver for growth and Chat is very global, very offshore. So, net-net that is kind of the color, but we are confident about decent growth, mid single digit growth from the large client and lastly, if I could point out that couple of years ago when we started this account was about 20% of our revenue, but with other growth and yet delivering net growth on this account, this is now about less than 15% of the FSL revenue, so fairly good gains in terms of reducing the concentration risk from the large account.

**Dipesh Mehta:** And last question from my side, we have guided 7% to 10%, so if you can help us understand your assumption for low end and higher end, upper and lower end, what kind of assumption you have made and how one should look the trajectory playing out will give us confidence, in next couple of quarters, we will be closer to upper end than lower end?

**Vipul Khanna:** Obviously, this is what we see today, one big factor is always right to have a range in the start of the year is the timing of deal closure and the timing of go live. That is one factor which plays among different businesses, I think for now we have built in a reasonable amount of intelligence in how the market especially for providers and collections evolve. I think the other variable to think about is we obviously have two meaningful acquisitions which we are integrating and kind of taking those new offerings to our existing clients as well as the Stonehill, they operate in the long tail of the mortgage market, right. We additionally focused on the large clients; they focus on the long tail. So, it is about we understand that market and taking some of our offerings to that market, so that variable of cross sell into each other's market is the other variable which has gone into the 7% to 10% assumption that we have. I think the timing of some of the recovery in collections and providers has a bearing in terms of whether we play on the upper end of the top end and the mortgage decline acceleration has been reasonably intense leading up to February, March and into sort of April, May now. We are kind of hoping that we start to see more structural demand in March towards end of H2FY23 with meaningful revenue. We are not counting a whole lot, but that will be the last factor which we will pay out there. That is how we see the 7% to 10%. Ankur, anything I am missing on that?

**Ankur Maheshwari:** No Vipul, I think it largely covers in terms of how we are seeing right now, for the next quarters.

**Moderator:** Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Advisors. Please go ahead.

**Mihir Manohar:** I wanted to understand that you got it for 7% to 10% kind of a growth for FY23, so if this is already organic component or at the Company level?

**Vipul Khanna:** This is at the Company level, but this is all organic as far as starting the year is concerned. This 7% to 10% also include the 6% full year impact from the acquisition that we did last year, but going forward, there is no acquisition baked into this growth assumption.

**Mihir Manohar:** So, basically this 7% to 10% guidance includes ARSI and StoneHill?

**Vipul Khanna:** Yes and that has 6% impact.

**Mihir Manohar:** Understood. And I wanted to understand on the delinquency side, we are seeing delinquency going up, so how do you see the collections part of the business, how should we model that for this particular year across the quarters?

**Vipul Khanna:** So, FY22 was kind of very muted, we were net flattish, we added new clients, but there were significant volume decline from existing clients given the exceptional credit quality and as I said the delinquency ratio has started to pick up. The core card portfolio, obviously there is a lag impact, spending is up, now by the design the payments start to kind of fall behind and you start to see people going overdue 90-180 days, it takes time to build that up and the portfolio raise to us for collection. That is just on the core card collection portfolio, but I am very encouraged by one, the digital collections platform is really kind of establishing its leadership in the market and we are taking it across segment, Fintech has been great embracing and I think the deal win there is resulting into revenue of normal trajectory given they are of small base, they are not as much affected by the market trajectory at right now, so we are seeing good revenue booking and volumes in the Fintech segment and we have started to kind of make some interest in the utility segment. And then the legal collection has come as a good short in the arm, I think it has been received well by our existing client both way, so compared to flattish last year, we expect strong growth from collections this year across both our core collections as well as legal portfolio.

**Moderator:** Thank you. The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

**Sanjay Awatramani:** Just wanted some clarification that you have given 7% to 10% of growth for FY23 revenue growth, is this understanding correct?

**Vipul Khanna:** Yes.

- Sanjay Awatramani:** And EBIT margin of 11.5% to 12%?
- Vipul Khanna:** No, 10.5% to 11%.
- Sanjay Awatramani:** What is the attrition rate for full year FY22?
- Vipul Khanna:** We have given lot of details in the investor deck. We track it separately between onshore and offshore plus slightly different market and how they behave and different talent market. What we saw in our onshore markets, UK and US, attrition was high and it peaked in Q2, but it has started to come down from a peak of 60+% is now kind of close to mid 40 in Q4 for our US and UK market. Offshore has picked up slightly, it is about 50% now and it is 50% because for the last several quarters given the COVID and work from home and for psychological safety it was artificially low, it is starting to come up now, but net-net for the year we have ended at about 50% onshore and 46% offshore. As we go into next year, I think we have a number of new actions in place, we did wage corrections for the frontline staff given high level market in both US and UK and our investments in leadership development, engagement, and making the work from home model work, I think they should have a positive impact on attrition. Clearly, I think most of us in the industry are shifting away from hey, work from home is transitory so now what is the long-term model and still big chunk of majority of the folks are still working from home. So, I think this new reality and settling into that even when COVID impact has gone is something which needs to play out and we are working hard like everybody else to find new ways, but my sense is we should have better attrition next year despite there is still very red hot market for the US and UK.
- Sanjay Awatramani:** Just last one if I can squeeze in, so just wanted to ask I mean if you have any acquisition plans for FY23 or FY24 and if you can quantify that and if you can highlight the debt value in INR terms if you can help me with that?
- Vipul Khanna:** Look, acquisitions I have said that we have a systematic strategy of finding growth adjacencies in our core areas that we operate. In the last 18 months, we have done 3 acquisitions, all adding something to our existing businesses in provider, collection and mortgage. We continue to take that strategy forward and I think nothing specific to report, but this strategy of tuck-in acquisitions, paying largely lot of cash flow that I think will continue to FY23 and FY24. We do think we have built an engine on the leadership team to be able to take on additional areas where we think there are opportunities and we built up our network of channels to get good visibility on deals happening through around the markets that we are operating. So, nothing specific to report, continuation of the same strategy and you should continue to see small tuck-in opportunity come through.
- Moderator:** Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum. Please go ahead.



**Nagraj Chandrasekar:** Just want to understand what really is the impact of high inflation on our customers, one hand you mentioned greater demand for our services, on the other hand we see high level attrition and that need to pay up first by most of the contracts along the tenure, fixed rate contracts where we get the volume effect and volumes would now fairly go up with that inflation rates, so how those two really work out in the past few days of high inflation and talent and shortages, what are we seeing on the margin front with respect to in the past?

**Vipul Khanna:** Great question. Look, inflation is real and if you look at the frontline staff and those wages, the components of that basket of consumption are obviously particularly food, fuel, energy prices, etc., so we have been very focused, proactive in making sure that we are increasing our hiring wage and we are adjusting it for existing employees. I think that has had, these are stuff that we have done mostly in this quarter, I think that has a positive impact and it kind of sets the base now for the future hiring that this is the increased salary that we will hire in the future. Now, obviously, lot of our contracts have index linked provisions, either linked through minimum wage or living wage in the UK, so those are automatic, but given the more broader inflation for most of our clients we have initiated dialog, we have gotten good direction, even approval from couple of large clients for higher than normal rate hikes, not necessarily all from today, but there are some playing out from the future and other clients have shown openness to the contract that come up for their anniversary cycles. At that time, they will consider sort of again, so this kind of a bespoke arrangements we are talking to big clients on that. The other way to think about is that talent shortage is real for everyone, right, where even for in-house operation for client, you think our provider business has severe talent situation, healthcare broadly is facing the same challenge in US, what is good is that it is creating demand for offshore and openness for offshore, so Mexico has gone live and now we have active conversation from other clients to say, Mexico is a viable option. Philippines demand is becoming more real and then obviously there is India and then the move to chat to say how much can I devote to Chat and are more comfortable taking Chat offshore than I was taking calls offshore. So, near shore and offshore and Chat channel migration are more structural options to take care for that. This year, net-net as I pointed out from a margin standpoint, it will have some downward pressure. That is why we have guided to somewhat lower margin for this year and as recoveries and price hikes play out, we should see margin come back to 11.5% to 12% by the end of the year. Dinesh, anything else to add on the inflation and client recovery?

**Dinesh Jain:** No, I think very well covered.

**Nagraj Chandrasekar:** Understood. Post FY23, what do you see for longer-term growth trajectory possible within the healthcare business both on the client and provider business, then the most visible turnaround is what we have achieved in HPHS in the last two years, how much further is there to go, can we quickly see this go to 15% growth during the 4-5 years period, given the large amount of talent we have employed?

**Vipul Khanna:** Nagraj, your voice was little bit breaking, but I think I got a sense the question you are asking is what is the longer-term growth trajectory of the healthcare business?

**Nagraj Chandrasekar:** Yes.

**Vipul Khanna:** So, take two parts, obviously we have been rebuilding our HPHS, health plan and health services business, last two years, I think it has done fantastically well both quantitatively and qualitatively in terms of the size has doubled from it was in a run rate basis as I said Q4 FY22, we have put in 3 or 4 strategies for growth in that area. Two of them are traditionally established areas, traditional BPO, claim processing, etc., but two more technology driven bespoke BPaaS for tech market as well as digital intake for pretty much everyone. Those are still I think in the early days and we see a lot of growth trajectory for digital intake as well as for BPaaS and I think given the size of that market, I am confident that we can continue our growth trajectory in HPHS that we have seen in the last 2 years. At least for the next few years, we can see that continuing and keep in mind this has been all organic. The provider business where we play a narrower segment for the market, we are leaders, but narrower segment that has been muted last two years, as I said this quarter was one of the best from a sale standpoint, the best we have seen in the last 3 years. What we are also doing is we are expanding scope of what we play and again offshoring comes into play, we are developing new offering which kind of clients are more amenable from an offshore standpoint given the talent situation. So, from a normal growth recovery as well as increasing the scope of where we play, I am cautiously optimistic that providers will have healthy growth this year and as we get into next year, it will just start to build on that momentum. So, the net-net FY23 and FY24, we should definitely see at least Company average or may be slightly higher than Company average growth in the overall healthcare segment.

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

**Shradha Agrawal:** You did indicate that you expect decline in mortgage revenue in 1Q, so from the current run rate of close of \$46-\$47 million that we are doing in mortgage, what is the kind of decline that we should build into our model for 1Q?

**Vipul Khanna:** Shradha, as you said we gave a lot of detail, at a full year basis, right now we are model, mortgage at between \$125 to \$135 million for the full year. Of that we expect about two third will come from servicing and the remaining will come from origination which is a very different composition from what we have had in the past, right, it is kind of almost inverse of what we had in the past. So, our run rate for Q4 in mortgage was about \$44 million to \$45 million, I think it is around \$45 million, but as we get into the next two quarter, we expect that will be more in the range of \$30 to \$33 odd million.

**Shradha Agrawal:** And another thing is you did indicate about the growth trajectory of the Company in the healthcare segment in particular, but beyond FY23, how should we look at Firstsource as a composite Company in terms of growth rate, earlier you used to have this aspiration of being in the top quartile growth rate vis-à-vis peers in the BPM industry, so how should we look at medium term aspiration for us now going beyond FY22?

**Vipul Khanna:** Shradha, even for FY22, we have got into 14.7%, next year we are saying 7% to 10%, but if you exclude out for the transition of revenue from mortgage as I said it will be about 18% to 22% which reflects the more diversified business even from FY22. So, if you take that forward and take it to FY24 and FY25, I am very confident of returning back to that aspiration even at the net growth level backing out all the uncertainties and at this stage very confident that we come back to that top quartile low double-digit sort of mid-teens kind of growth at the Company level. We have talked about our established businesses, we are also obviously incubating newer businesses that we have did in the past, those are something, it will take a while, but I think we are building those growth wave for the future as well to supplement the existing businesses of BFS, CMT and healthcare as well. Back to the core question, FY24 and FY25, I am confident that we will come back to that aspiration.

**Shradha Agrawal:** And just one number related question, what should be the CAPEX number for FY23 and what is the pending payout on the acquisitions and the mortgage client payout for FY23?

**Vipul Khanna:** Sorry, your question was CAPEX and the pending payout for acquisitions and the mortgage minority buyout. Dinesh, you want to take that?

**Dinesh Jain:** CAPEX, we built in around \$8 to \$9 million because I think as of today plan is more of a technology side CAPEX which is going to take place, so that has been built in there and on the acquisition side, Ankur, you have the number readily?

**Ankur Maheshwari:** So, Shradha, on the acquisition, the numbers are contingent on performance, these are earnout assuming if the target the business is performed to full potential, this payout could be in the range of about \$12 million and regarding the mortgage deal that we had signed, again contingent on certain outcomes and that would also I think the range of around \$5 to \$10 million depending upon where the performance lands at.

**Shradha Agrawal:** If this \$12 million is combined on both the acquisitions?

**Ankur Maheshwari:** Yes, \$12 million, yes.

**Shradha Agrawal:** And mortgage is \$5 to \$10 million?

**Ankur Maheshwari:** Yes.

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**Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

**Vipul Khanna:** Thank you. Again, thank you everyone for joining late in the day. It has been interesting two quarters I am looking forward to steadier and more uneventful FY23 and come back and talk to you about the progress we make. Thank you again for joining and your interest in us.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Firstsource Solutions Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.