9th November 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 November 2, 2022

Please find enclosed the transcripts of the Analysts earnings call conducted after the meeting of Board of Directors on 2nd November, 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 SURESH NAMBIAR
Digitally signed by POOJA SURESH NAMBIAR
Date: 2022.11.09 15:34:46 +05'30'

Pooja Nambiar
Company Secretary

Q2 FY2023 Earnings Call Transcript – September 30, 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

Moderator: Ladies and gentlemen, good day and welcome to Firstsource Solutions Limited Q2 FY2023 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. Thank you and over to you Sir.

Ankur Maheshwari: Thank you Faizan. Welcome everyone and thank you for joining us for this quarter ended September 2022 earnings call for Firstsource. On this call, Mr. Vipul Khanna, MD and CEO and Mr. Dinesh Jain, CFO will provide an overview of the 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 view this on our website www.firstsource.com.

Before we begin the call, please note that some of the matters we will discuss on this call including our business outlook are forward looking and as such are subject to known and unknown risks. These uncertainties and 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: Thank you Ankur. Good evening, everyone. Welcome and thank you for joining us today. Hope you are able to find some quality time during Deepavali festivities. Let us take a deep dive on how the quarter panned out.

Quick Snapshot of the Quarter

Revenues grew by 1.8% year-on-year in constant currency terms and came in at Rs.14,882 million or $187 million. Organic revenue excluding the impact of mortgage decline, grew by 12.8% year-on-year in constant currency terms and;
Operating margins were at 8.4%;
EPS degrew by 6.1% year-on-year and came in at Rs.1.84.

Since we last spoke the overall macro environment has further deteriorated. The pace of fed action on interest rates has been much faster than the expected and continue to impact parts of our business adversely. Considering these movement, we are aligning our growth outlook to a range of -2 to 0% in constant currency for this quarter. The impact of these factor is also flowing through the margins. Considering these headwinds netted against the benefits of our cost action we now expect operating margins to be in the range of 9% to 9.5% for FY2023. The guidance adjustment is primarily due to additional pressure on our mortgage business the unique situation in the collections market and some deal delays in our healthcare business. We will discuss the rational for this change of guidance as we walk through the industry segment.

This is not the outcome we had anticipated when we started the year but given parts of our portfolio are highly correlated to the macro environment the near-term outlook for our business has been significantly impacted. Notwithstanding, we strongly believe that these headwinds to our business are transitory, and it is important to take a step back and put the current concerns of the business in a longer-term perspective.

First, I continue to believe that the business momentum has been strong and will continue to remain so in the medium to long term. This is validated by the 12% to 15% growth we expect this year excluding mortgage and in fact from last year's acquisitions.

Second, as revenue has come under pressure prudent cost management is critical. We are sharply focused on achieving an efficient operating model. The actions taken are yielding results and we expect to achieve a normalized operating margin by Q4 of this year.

Third, our strategy remains focused on investing in our core and adjacent industry segments to deliver consistent growth and build a more balanced portfolio. I will expand on this strategy a little bit at the close of my remarks.

Segmental Performance

Banking and Financial Services

Talking about industry outlook, our BFS vertical degrew 7.7% year-on-year and 10.2% in constant currency terms.

Mortgage

The mortgage industry's outlook continues to worsen given the aggressive interest rate stands by the fed to counter inflation. The sharp downward movement in home sales and the collapse of refinance market. Rates are at 20-year highs of 7% resulting in year-on-year declines of 86% in refinance volume and 42% in purchase volume. This will result in degrowth of approximately 55% in our mortgage business in this fiscal implying headwinds of almost 50% to our overall business. Based on discussions with our clients and assessment of the market outlook, we were expecting that this business to bottom out by Q3 of this year, however taking the increased headwinds into account, we believe the bottom will now shift by a quarter or two.

Amidst all the gloom we see several systematic upsides in this business. Housing demand is still structurally strong. Total home sales outlook for the medium term while off from their 2021 peak is likely to be about 10% higher from 2024 onwards compared to the 2011 to 2020 annual average. Home prices are correcting. Some markets have witnessed as much as 10% to 12% correction from the recent high. Mortgage market participants are experiencing significant margin pressures. While our clients are reacting to the situation by aggressively reducing capacity and headcount, they are simultaneously realigning their operating structures and evaluating transformation cost solutions either by themselves or with partners like us. We continue to believe this will be a strong growth driver once origination volumes improve from the current low.

Within our portfolio, we see the following opportunities: We continue to maintain our market leadership, YTD September we have added 12 new clients and we have a strong diversified pipeline. While volumes are low in this current market environment, we are well positioned to take advantage of the upside once the current market activity stabilizes. As a testament to our market leadership, NelsonHall also rated us as the leader in their NEAT mortgage and loan services 2022 report for the overall market.

While the Stonehill Group acquisition has also been impacted by the adverse market condition and will miss its earn out target the quality control and due diligence services segment is starting to find its footing with the increase in capital market transactions in the industry. We are building an aggressive go to market push into mid markets for these services. To summarize, the purchase finance market is soft and the refi market is down to a trickle. Our servicing business has held up reasonably well and as and when the mortgage market stabilizes we are positioned well to capture the volume and the wallet spend.

Collections

Let me shift to collections. Historically our collection business has been a strong hedge against the down cycle in the mortgage industry. This time however we are going through a unique economic phase. The delinquencies are rising at a slower pace despite the rapidly rising interest rate environment. We believe this is primarily due to still very low unemployment rates and the strongest household balance sheet US has seen in the last 40 years. However, it is a question of when not if. For several reasons delinquencies are expected to rise over the coming quarters. Total outstanding credit card revolving debt which is most relevant to our collection business hit a high of $1.15 trillion up 18% from a year ago. Delinquencies while still lower than historical expectations are rising. The FRED recorded the most recent quarter at 1.81% versus a bad quarter of 1.66%. Average US credit card interests rates are inching close to 19% the highest on record since 1996. These rates are expected to continue to rise. The nature of our client conversations are increasingly around capacity augmentation. Incidentally the top five US banks increased their credit loss provisions by 35% to 80% quarter-on-quarter in the September 2022 quarter. So while we wait for the volume pickup, what have we been doing? We continue to diversify our business consciously and actively beyond the big card issuers. Our digital collection platform is primarily go to market vehicle to expand into Fintech and utility and the more we do the better we become. We are now able to onboard a new client every six to eight weeks versus 12 to 14 weeks earlier. We had a strong quarter adding nine new clients. We are excited to announce that we now work with top three BPM players in the USA.

The strong portfolio of early, late stage and legal collections underpinned by the market leading digital collections platform and our strong wind momentum this year all position a strongly to harness the likely volume growth in this market over the coming quarters. And as a reminder, our legal collections business acquired last year runs a multiyear recovery cycle and accounts based with it. The impact of lower placement volumes in CY2021 and CY2022 will have a lagged impact on the future revenue growth of this segment. Notwithstanding, it is a strategic addition to our offerings. It extends our target market, and we are pleased with the cross sell wins thus far.

UK BFS

Shifting to the UK BFS segment. The growth story in this segment continued with the growth of 11.9% year-on-year and a pipeline that continues to grow across fraud, mortgage, and customer experience. The demand environment pipeline activity and physical adoption remain strong despite the political uncertainty and tough economic conditions. Despite high inflation and high talent cost, unemployment rates remain stubbornly low in fact near 50 years low. This is possibly the toughest labor market we have witnessed in the UK putting pressure on fulfilment. Our investment in sales and solution made over the last 12 to 18 months are yielding encouraging results. We continue to expand our existing relationships and add new clients.

Currently we are finalizing operation strategy and capacity planning for the next year with our key clients. I want to highlight two notable wins this quarter, both illustrate a diversification and expansion of our client base. One, we are helping an international payment Fintech to automate their lead generation, third party referral, KYC, payment screening and sanctions screening processes and two we were selected by a specialist neobank Shawbrook as their operations partner to deliver best in class customer experience to our digital first solution and people centric approach. We are pleased to make meaningful inroads into the increasingly important UK digital banking segment.

Healthcare

Our healthcare segment continues to grow consistently at 21.2% year-on-year and 12.9% in constant currency. As some lingering weakness in the provider business have been more than offset by the strength in HPHS.

The key teams perennation through the US healthcare ecosystem currently are

- a holistic consumer centric orientation backed by analytics and integrated digital technologies,
- Integration of virtual tech enabled passes and traditional service offerings,
- reimbursement incentives for providers to use as innovations for managing health quality and cost and;
- forth strong partner and vendor relationship that increase value.

Investment in these segments by health plans and providers will continue to fuel the spends in the areas we operate. Our strategy to focus on top 10 health plans, growing our digital intake business and creating bespoke BPaaS solutions for mid-market health plans continue to yield good results. We are seeing a trend of strategic vendor consolidation from the larger health plans. These are large deals and after hard earned ranking as the leader in tier operation segment we are now often a part of these buying motions. This quarter we were awarded a meaningful back-office deal with one of the top 10 health plans. We have won this against top three competitors in the industry on the strength of our solutioning and our creditability to execute sophisticated transformation. Digital intake business is seeing good traction. Our investments in modernizing the platform and building the right AI and digital partnerships have allowed us to build a healthy pipeline in this segment. The recent healthcare payor digital services RadarView report from Avasant a leading advisory and consulting firm upgraded Firstsource from disruptive to innovative a step away from leadership on their scale.

There have been some deal closure delays especially on larger opportunities which we had to factor in the guidance for rest of the year. The provider segment continues to struggle as the industry deals with the residual impact of COVID. The public health emergency has been further extended until the middle of January again delaying normalization and more importantly hospitals are grappling with significant heightened medical care costs extending the buying cycles and other administrative services where we play. Longer term it should lead to more outsourcing and globalization. On the positive side, as the PHE (Public Health Emergency) starts to come to an end we expect strong demand emerging from medical redetermination services. We are currently building a digital solution to capitalize on the demand in the next few quarters and have signed up first couple of anchor clients.

Communication, Media & Tech

Our CMP business continues to grow strongly. This quarter we grew 7.4% year-on-year and 14.2% in constant currency. We continue to witness steady growth from our top client across their products and service lines and expect to keep ramping up for this demand. We are focused on building a US commerce business and I am pleased at the progress thus far. I expect reasonable growth in this segment next year from our investments. There is increased interest for off shoring amongst our clients given the talent situation in on shore market. All our offshore locations India, Philippines and Mexico are growing steadily. Additionally, we have been incubating digital media and edtec segments for the past few quarters. We have secured meaningful marquee wins in both these segments. We expect our DECC and intelligent back-office offering will help provide healthy growth in these niche segments. Primarily from secular changes in consumer preference for consuming media and higher education and also difficult economic times and tail winds for change in these sectors.

Again, it has been hard to forecast in this environment given our business mix and I am genuinely disappointed to revise the growth and earnings guidance down again. I will reiterate this is a year in transition. If we zoom out and click on our strategy for a moment we consciously chose to grow and pursue market leadership in mortgage and collection as the two ends of like a barbell naturally hedged against each other and notwithstanding the current market impact, we have achieved market leadership in both segments. In addition to the investment and resulting market success in HPHS over the past 3 years we are now adding our portfolio adjacent less cyclical businesses to supplement mortgage and collections and to drive the next phase of our growth. One we are moving into other consumer lending products and broader retail and SME banking, leveraging our mortgage, collections in UK BFS expertise.

Sameer Ahluwalia joined us recently to lead the effort into adjacent BFS segment. He is a renewed financial services executive with deep experience in building and scaling BPO businesses across all BFS segments globally. Two, we are targeting select additional CMT segments as I mentioned digital media, Ed-Tech and parts of big tech and; three we are diversifying collections into Fintech utilities and communications through our digital collection platforms. You have all seen the BPS market continues to operate in a strong demand environment driven by the twin client theme of cost efficiency and digital. With these adjacent expansions we intend to participate more broadly in this market environment. Now let me hand over the call to Dinesh to cover details of our financials.

Dinesh Jain: Thanks Vipul. Let me just walk you through some of the financial highlights.

Revenue for the Q2 came in at Rs.14,882 million, or $187 million. This implies a year-on-year growth of 4.2% in rupee terms and 1.8% in constant currency terms.

On the margin front operating margin came in at Rs.1,254 million or 8.4% of the revenue for the quarter. It implies a year-on-year margin decline of 411 basis points.

As we mentioned earlier, we have been driving several tracks across the organization on direct cost, operations cost, support cost as well as on physical and tech infra-alignment to help expand the margins.

Profit after tax came in at Rs.1,294 million or 8.7% of the revenue for the Q2 FY2023, a year-on-year margin decline of 76 basis points.

In this quarter, we have a gain of Rs.578.6 million in other income relating to the fair value of the liabilities for the variable consideration linked to the revenue performance on acquisition done in FY2022. These liabilities are expected to be settled in Q3 and Q4 of FY2023 and this statement which is the other income is in line with the technical requirement of Ind-AS 103 and also ICAI guidance notes.

During the Q2 FY2023 we have generated Rs.2,128 million on cash from operations and our free cash flow was Rs.2,028 million after adjusting for capex of Rs.100 million. Closing cash balance as of September 30, 2022 was approximately Rs.2,472 million.

The DSO came in at 56 days versus the 59 days last quarter.

Net debt as of September 30, 2022 stands at Rs.6,055 million or $74.4 million in comparing to Rs.7,333 million or $92.9 million as of June, a reduction of Rs.1,278 million.

Tax rate for the Q1 was around 17.4%. For FY2023 we expected it should be within the range of 17% to 19% for the year.

On the forex hedging we have coverage of GBP 30.7 million for the next 12 months with average rate of Rs.104.7 per Pound and coverage of $75 million with average rate of Rs.81.7 per dollar. Considering the current market scenario, we are also exploring some of the long-term hedges based on some of the client contracts which we had.

With this, I open up for the questions. Thank you.

Moderate: Thank you very much. We will now begin 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. I had a couple. The first one was a book keeping question if you could help us understand what was the contribution of mortgage revenues in the current quarter and the second question was basically just wanted to get your thoughts as to the fact that while we are seeing some of your global competition and global peers continue with their beat and raise phenomena why are we struggling on a relative basis and if it is a portfolio issue does this underperformance continue into the next year as well given there are concerns about macro recession leading to economic environment? Thank you.

Vipul Khanna: So, mortgage this quarter was about somewhere between Rs.24 million to Rs.25 million so that is the mortgage number about 13% of the overall business. On the other question of relative to market obviously as I have said, we expect this year excluding mortgage and excluding impact of acquisitions purely organic excluding mortgage we expect growth of 12% to 15% this year. As far as next year is concerned, structurally we expect headwinds should kind of ease out right especially what we have seen in mortgage, the portfolio will be reduced significantly as we go into the next year. Collections should be in a different place than what has been this year and all the growth investments in adjacent areas that should start to line up so I think that is kind of my commentary in terms of next year but I do believe that if we kind of negate out the impact of mortgage decline this year we have had good healthy growth of 12% to 15%.

Manik Taneja: Sorry to draw you a little bit further on this Vipul even on this the growth that you are talking about ex mortgage and ex intact of acquisition this number has been scaled out over the course of the last six months so that essentially tends to essentially raise questions around the level of confidence in terms of the growth because when we guided at the end of FY2022 you are looking for a certain amount of growth. This number was pulled down after Q1 and has been pulled down further after Q2 so in that context even next year one is worried about the macro should we expect this part of the business and we start growing at a slower pace next year.

Vipul Khanna: So Manik it is a fair question. We have had to bring down the guidance for non-mortgage as well. I had mentioned something kind of clarify some so clearly if you look at non-mortgage we expected higher growth from collections this year given how traditionally when economic cycles turn what happens to the collections, but this time it is unique. The household balance sheet we have which cash balance with people is much healthier than what we have historically seen in the last whatever ex recession cycle is coming in and that has caught everybody by surprise including our clients in terms of how protracted the delinquencies and its impact on collection volume has been so that has been one big reason. Second just tactically between last and this quarter what has impacted our business is that we have had some delays in deal closures in HPHS which has made us kind of adjust before cash down for healthcare. Still very healthy growth but some adjusted the top end of that growth and then third given the weight of UK labor market and given the kind of work we do there which is mostly on shore contact centers, it has put pressure on a fulfillment and extended some of the ramp timings so those three factors from last quarter to this quarter has kind of made us pin down the forecast for rest of the business. You are right there will be some element of uncertainty going into next year so it is hard for me to kind of play out at this point in time how exactly how next year will play out and its impact on financial services and potentially their recovery cycle and provider but in general I feel much better about next year compared to what we have been this year.

Manik Taneja: So, is there a difference in terms of the portfolio mix for us compared to some of our global players like a WNS and EXL?

Vipul Khanna: Sure, right you know our mix has been something around 45% banking of which big chunk has been mortgage US market as well as the collections market and the UK BFS market. We obviously do not participate in some of the other sectors in the economy which have been growing which is travel and hospitality, manufacturing and logistics, utilities and sort of the things like insurance. We do not participate in those markets. We play into these segments in BFS and then we play in healthcare which are HPHS business has grown by very well I think better than the market. Providers are which not a whole lot of mainstream BFS players where we have a unique niche. I think that has been subdued through the COVID so that has been a little bit of a dampener and then finally CMT is something which besides com something we are building up. Tech has been a growth driver for many of the players in the market. That has been our focus to grow. It has been a slow build but slowly and steadily we are kind of making inroads into that so that is how we kind of look at the different sectors of the market us versus where the mainstream players are growing into.

Manik Taneja: Sure. Thank you and all the best for the future.

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

Dipesh Mehta: Thanks for the opportunity. A couple of questions. First, I am just try to understand healthcare business. I think there you indicated about some deal flows or velocities softness so can you provide some more detail what is playing out in the market and what drives slower deal closer and how you expect it to change? The second thing on the provider side in healthcare the business remains soft for us for some time? How do you expect it to evolve over the next few quarters considering some of your peers are indicating a healthy growth and I think they are delivering for the last couple of quarters? My second question is about client addition? If I look our client addition remains very robust over the last few quarters but it is not getting translated into revenue performance? Can you help us understand the quality of clients which we added may be in the last two years outside of mortgage business? How the ramp up is happening in those clients in terms of phase of growth because we do not sell more than 1 million, 2 million and 5 million kind of different bucket so if you can help us understand some qualitative sense about how the progress is happening and the last question is about tech business? If you can forward some sense how the progress is happening? Thanks.

Vipul Khanna: Thanks for the questions. I will try to answer and if I forget some please come back. Healthcare deal velocity I think as I mentioned very consciously when we reintegrated this business a couple of years ago we said we will target the top 10 health plans very competitive space. They are matured buyers. They are into their third and fourth generation of contracts and give out in some cases and additional areas that they are looking to outsource. I think we have made very strong progress. We have entered those accounts. In eight of the 10 now we have entry. What we are seeing is that as they get into more strategic RFPs more contract renewal, obviously they run pretty resilient exercises, pretty exhaustive exercises for RFPs and stuff like that and the fact that we are now into them and we are on the panel we are now participating in those, so these exercises tend to be long. They start with the timeline right. Multiple things come in and they kind of extend the timeline. It is not structural. It is not unusual. What we had forecasted for growth especially in Q3 and Q4 from some of those. That has kind of slowed down for us from a timelines of what we expected to where they and that has kind of pushed out some of the growth for the next year. Q2 was strong. We expect some moderation for that in Q3 and then come back in with reasonable amount of growth in Q4 so again nothing structural. It is just the timing of the deals on how we had forecasted in our pipeline and how it is playing out in the market. The good news is that we are now participating in top 10 health plans. The good news is the digital intake market is looking strong. Digital intake tends to have a little bit of a longish implementation cycle. It is complicated. It is kind of critical for the client so I think that is where it is kind of getting.

Provider softness, why it is soft for us is because we play in a certain niche of eligibility services and receivables management. It is a 100% onshore business very profitable. We are the market leaders but this is exactly the segment which has been impacted by public health emergency where the government has kind of through the public health emergency put automatic re-involvement right for people like as a measure of saying hey regardless of what economic segment and coverage you have, you are not eligible for this program. Once that goes away normal volumes will return in that business. How it will play out. I think we had two or three strong quarters of wins. The implementations are in progress for that. As we go into the future as I had mentioned in the past last couple of quarters, we have been expanding this scope of our offerings and going mid cycle in the RCM, which is about coding, AR followup, etc., which are traditionally services very amenable to offshore so we have seen growth in the offshoring market for those services. It is a new segment for us. We are at it. We have a couple of irons in the fire. Because it is a new practice it takes a while to build up but as it starts to build I think we participate in additional market segment that historically we have.

On your second question of client addition, robust numbers, I think a couple of factors there. One mortgage we continue to add a healthy clip of new clients across the market segment. The challenge is volume right. The clients have signed up but the volumes are very low so obviously there have been reductions in volume from existing clients but even in the new deals that we have signed late last year and early this year's volumes are slow on the mortgage side of it. Second the acquisition that we did of Stonehill because of the services it does QC and DD the ticket size for them tends to be smaller right so while you get the number of clients the ticket size per client is lower relative to what we have seen in the traditional mortgage business. That is a kind of one factor. The second factor is that as we grow more digital especially the collection business and we have been expanding beyond the big card issuers into Fintech and utilities again they tend to be smaller companies. They are growing their businesses. Collection cycles also take longer to build right. They have lent now that the delinquencies, so we see more wins because of digital. The ticket size is less so in general I think the quality of clients is great. Some are due to market conditions. We have not seen the revenue come through and some inherently tend to be smaller ticket sizes given it digital or services like QC and DD that we play on.

The third question you had was on what are we doing on tech. So, tech it has been built in a competitive market. As I mentioned we are focused on two or three segments. One is digital media which is media going to digital media. Decent progress in UK and US on that. The second one is Ed-Tech so we have been focused on the Ed-Tech segment for the past two or three quarters now. We have had good two or three wins there in kind of building up the Ed-Tech business especially when the market is tighter for some of the startups. I think we see a good healthy demand building up for that and then within the big tech sector we are focused on a couple of service areas, and I am pleased with the development there. I think we will be able to share some good milestone wins for that in the Q3 as we go along. So lower than what I expected to be at this stage but reflects the competitiveness of the market, but we continue to chip away at it and I think tech will become a decent growth driver in the short to medium term as we go into the next year.

Dipesh Mehta: You answered it. Just if I can squeeze one more question just to get overall sense. Now we have given revised guidance? Now we got obviously for the last couple of times so I presume we are now very conservative when we guide for the next two quarters? What will be the upside risk and downside risk in your opinion considering some of them are moving item like collection, velocity, HPHS deal closure momentum plus some of the moving items like mortgage and other things if you can provide just some sense about upside and downside risk thank you?

Vipul Khanna: Yes Dipesh our forecast is a muscle that I acknowledge we need to better up or beef up. One is the market conditions and the second is we need to get better forecasting and giving guidance. On the downside risk I think we have factored in all that we can see and for us to hit the downside it is pretty much flat quarters all the way through till the end of the year. By the way Q3 we do expect will be kind of flattish compared to Q2 because of the further mortgage decline that we are seeing in Q3 relative to Q2 so the growth from other sectors will be kind of washed out by mortgage.

On the upper end of the guidance what we expect is that traditionally Q4 or the March quarter tends to be strong for us in collections because of tax refunds and stuff which people get and then hence higher collection so that is one upside that we have baked in, healthcare business especially HPHS will get back onto the growth trajectory right. The ramps will happen and some of the deals that we talked about they come through and we are also expecting better fulfilment on the European business. Demand is there and we hope that we will be able eke out more revenue from there on the Europe side of it so between three businesses that is where we go from our low side of the forecast to the high side of the forecast. Dinesh and Ankur am I missing anything on that?

Dinesh Jain: I think it has been covered very well. These are the main factors too.

Dipesh Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir one small question on the other income so you told us that there was earnout, which was sort of reversed during the quarter so if you could give us some more colour on which acquisition and how much was reversed? Is it one or both clubbed together and the second part were we expecting any impairment given your estimates are today versus when you acquired these entities?

Dinesh Jain: Mohit I think we are considered for both the acquisitions. One of the parameters which is getting crystalized by October which is just now we closed. The second one is going to be their assessment by November 30, 2022 so we have factored it in a way of what they are going to achieve and accordingly we have recognized as income which I think the value has already been given in the notes which is Rs.56 Crores.

Mohit Jain: The individual amounts like both of them have been reversed or is it only one thing? You are saying both have been reversed so if you could give us some allocation like broadly should I assume half for each acquisition or how does it does work out?

Dinesh Jain: It is higher on the TSG which is your Stonehill acquisition in the higher side and collection acquisition is the lesser amount as of today. As far as the impairment or the goodwill is concerned I think when you acquire, at that time you do the assessment of the allocation between goodwill and other and with the current assessment which we got and do not see any risk of being any impairment per se because when you acquiring you also already charging some of the intangibles there so as of today there is no risk on the goodwill and looking the year which is we are forecasting for March I do not think there will be any risk on the goodwill side.

Mohit Jain: Can you give us some number of how they are trending now in the revised estimate?

Vipul Khanna: In terms of the revenue run rate.

Mohit Jain: Yes, the revenue run rate for these two entities at the time we acquired and now what is the run rate we are currently? The historical number I think we have but if you could help us with Q2 number or even an expected number that you have so that we understand in the sense how much decline has happened in these two entities?

Vipul Khanna: So, on the mortgage acquisition obviously you saw that I mentioned we lost about 55% of our core business compared to last year or we will lose by the end of this fiscal. On the acquisition we have seen softness. They had a small portion of fulfilment on the origination business which has been severely impacted, but if I was to say from what we acquired to now I would say we have seen about Ankur correct me if I am wrong, I would say it is about 25% to 35% erosion from where they were on the Stonehill acquisition and on the ARSI acquisition which is legal collection the fall has been less because there are falls and rises tends to be more lagged and hence exaggerated over a long period of time. There we have seen a reduction of about say 5% odd I would think but the thing is that we expected some more growth, and it is kind of on the other side.

Mohit Jain: Right and is it fair to assume that on this the 5% reduction will sort of increase as we proceed because usually you have a lag between delinquency and before it goes for the legal thing?

Vipul Khanna: Mohit I missed it. You are saying we expect what.

Mohit Jain: Currently you are trending 5% down because as you mentioned there is a lag between when the delinquency happens and when it goes for the legal resolution so should we assume that this 5% gap may actually increase next year?

Vipul Khanna: Yes so on the acquired portfolio for the big clients obviously because they are placing less because of the healthy collections situation because placements are less that will be a downside to future growth, but obviously we continue to add new clients on that and we have done three or four cross-sells there that will be the upside and I think both those factors will play out differently next year but you are right on the first question.

Mohit Jain: Understood Sir. Thank you.

Vipul Khanna: Part of it we expect it Mohit on where it will land out. We were in an environment in 2021 where we were already seeing lower placements, but it has been little bit more exaggerated than that.

Mohit Jain: Got it Sir thank you.

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

Shradha: A couple of questions. Would it be possible for you to give the run rate of the collections business now and how much are we down in that business on a Y-o-Y basis?

Vipul Khanna: Collections run rate, between both the businesses combined we are at about somewhere between $31 million to $32 million and compared to the last year same time obviously the acquisition was not included but by this time we were about $14.5 million.

Shradha: This is all organic?

Vipul Khanna: That was organic yes.

Shradha: In this $32 million what is the portion of organic and inorganic just a broad split?

Vipul Khanna: I do not have at handy for this.

Shradha: No worries. I will take it offline.

Vipul Khanna: I think on a Q2 basis the inorganic is about $17 million and I think the core collection business is also about $16 million to $17 million so actually it is more closer to about I think $33 odd million is the run rate.

Shradha: So, the $14.5 million has gone up to $17 million right on a Y-o-Y basis?

Vipul Khanna: Gone up.

Shradha: Right and within mortgage what is the split of servicing and origination now?

Vipul Khanna: So, as I said the servicing business has held up strong. There have been some reductions as clients pull back in source right. Then we have reductions on that but despite that the mix is now closer to now like 35:65 between origination and servicing.

Shradha: But servicing has also declined on a Q-o-Q basis?

Vipul Khanna: On a Q-o-Q basis and absolute dollar yes it has.

Shradha: Did you indicate that you had earlier expected mortgage to bottom out in 3Q and now you expect that to get extended by another quarter or so?

Vipul Khanna: Yes. I think given the way market is sliding and given the fed has very unambiguously said that they will continue to raise interest rates until they have a better handle on inflation and unemployment rates have gone up. Given that the market is now expecting that the interest rate hike will continue into CY2023 and hence it will continue to dampen the mortgage market from where the earlier expectations of the market were.

Shradha: Right and just one last bit on the CMT bit most of the IT services companies have found it a bit cautious on the traditional media companies IT budget but we have seem to be maintaining a relatively positive stance on our growth prospection on CMT so why are some divergence view here from what IT companies have been talking of from CMT verticals?

Vipul Khanna: I would not know specifically, but I could offer you some broad comments. If you look at our portfolio obviously our large client is a big component, and we have good visibility on where we land on that client in the next two quarters and going into next year. The digital media business as well as the US comm business has been building is relatively small and I think on a small base we expect we will be able to eke out good expansion and win new business there however tech business where obviously which has become a big part of the market over the last set of five or six years we obviously have a very small base and we only have upside but the bigger players with large portfolios may be they have challenges on how that portfolio plays out when the tech companies start to kind of look at, we have seen all of them getting very cautious in cost and margins and stuff like that so I think that is my sense of what could be the divergence.

Shradha: But you are not seeing any kind of concern in your top account?

Vipul Khanna: No.

Shradha: Apart from the delivery or the fulfillment challenges that you have spoken about?

Vipul Khanna: Exactly. In fact, we are seeing good signs of more offshore growth there primarily driven by the fact that our key clients also realize the tough market conditions in the UK.

Shradha: Sure. That is it. Thanks Vipul.

Moderator: Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

Chirag Kachhadiya: Sir I have only one question. I would like to know outlook on attrition rate and when you feel that it will soften?

Vipul Khanna: Sorry outlook on attrition rate and when do we think sorry can you repeat that portion.

Chirag Kachhadiya: It will come down in a meaningful way?

Vipul Khanna: So, I think attrition we have seen moderation of our attrition onshore especially. This is outside of the capacity reduction that we have had to do in the mortgage business, so this is purely voluntary attrition. We have seen a good five-point reduction quarter-on-quarter on that. We have seen a minor creep up in the offshore attrition as the market continues to be strong offshore for BPO right. Manik earlier asked about market strong demand environment is strong, so we are seeing growth there. I think for the rest of the year I think we will see similar trends. I do not expect material movement down or up in this market for the remaining two quarters. We should be in this broad range of 50 short and the 40 odd for onshore and offshore respectively and by the way I think this is fairly in the middle of where the market operates for our kind of services.

Chirag Kachhadiya: Okay thank you Sir.

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

Manik Taneja: So actually, just wanted to clarify one thing. With the outlook that we have provided now for the full year of -2 to 0% kind of a growth in CC terms for the full year? I was just checking if that implies about a 0.6% to a 2% CQGR to 3Q and 4Q is that arithmetic, correct?

Vipul Khanna: Yes, so as I said to Dipesh's question at the lower end it will be flat to Q3 and Q4. At the high end I think Q3 will continue to be flat, but we expect good upside in Q4 from pickup in collections, healthcare, and Europe. Pretty much the growth will be sort of back ended in Q4 at the high end of our forecast.

Manik Taneja: Sure. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vipul Khanna for closing comments.

Vipul Khanna: Thank you. Again, thank you for your interest. Thank you for patiently listening through. It has been a tough quarter, but I am very encouraged by the growth adjacencies that we have been investing. The wins that we have add and as economic environment moderates, we should see better times. Thank you for your continued interest and you guys have a great evening.

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