

10th May 2023

To:

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

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

Dear Madam/ Sir,

**Sub: Transcripts of the Analysts Earnings call conducted after the meeting of
Board of Directors on May 5, 2023**

Please find enclosed the transcripts of the Analysts earnings call conducted on 05th May 2023 for the meeting of Board of Directors held on May 4, 2023, 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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Q4 FY2023 Earnings Call Transcript – March 31, 2023

CORPORATE PARTICIPANTS

Mr. Vipul Khanna - Managing Director & Chief Executive Officer

Mr. Dinesh Jain - President and Chief Financial Officer

Mr. Ankur Maheshwari - Head Investor Relations

Moderator:

Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q4 FY23 Earnings Conference Call. As a reminder, all participants' lines will be in a 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 star and zero on your touch-tone phone. Please note 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, Vikram. Welcome, everyone, and thank you for joining us for the quarter-ended March 31, 2023, Earnings Call for Firstsource. To take us through the results and answer queries, we have with us today Mr. Vipul Khanna - MD and CEO and Dinesh Jain - CFO. Do note that the results, the fact sheet, and the presentation have been emailed to you, and you can also 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, pilot study, and subsequent annual reports that are available on our website.

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

Vipul Khanna:

Thanks, Ankur. Good morning, everyone. Welcome, and thank you for joining us today. So let's start by giving you an overview of our fourth quarter performance. This quarter, our revenues de-grew 2.8% year-on-year in constant currency, and came in at INR 15,568 million, or USD\$190 million. This implies a growth of 2.5% quarter-on-quarter in constant currency. Operating margins improved by 21 bps year-on-year, and 220 bps sequentially to come in at 11.6%. I'd like to reiterate that our margin performance in H1 was an aberration, and the corrective actions that we've taken have brought us back to a normalized margin range. The diluted EPS in Q4 grew by 7.3% year-on-year and came in at INR 2.02 for this quarter.

For the fiscal 23, the recorded revenues of INR 60,223 million, or \$750 million, implying a constant currency de-growth of 1.1% over fiscal 22. Excluding mortgage and acquisitions, we achieved constant currency growth of 13.7% year-on-year. Operating margin for the year was 9.4%. These numbers are firmly in line with our recent guidance. This year was clearly challenging, as our unique business mix was negatively impacted by unprecedented macroeconomic cyclicality. We refined our long-term strategy to ensure that our go-forward business mix is more balanced, and can better manage these external variabilities, and also position us for more sustainable longer-term growth.

As a quick reminder, the key components of our strategy are:

#1. To diversify within the BFS and CMT verticals and expand into select new subsegments of healthcare and CMT, with the overall goal of reducing exposure to macro-cyclicality, and driving the next phase of our growth.

#2. Drive growth in our chosen verticals by building adjacent capabilities, by systematically adding new clients, and by growing existing strategic accounts.

#3. Leveraging our digital tools and services to create more cost efficiency and build new digitally powered solutions. We are as much focused on harnessing rapid developments in AI, especially generative AI.

Against this strategic framework, we had a number of critical achievements during fiscal 23. Let me first start with a theme of diversification. In BFS, we made good progress in growing the collections and UK BFS segments. We are pleased with the organic, constant currency growth of 18.3% in our BFS portfolio, ex Mortgage. In CMT, we reduced our concentration of our top client from 80% of CMT revenues in Fiscal 22 to 70% in Q4 of Fiscal 23, by consciously growing the other parts of this segment. Excluding the top client, this portfolio has grown strongly at 44% year-on-year, led by growth in Edtech, tech and collections in the communications segment.

We continue to build new capabilities in adjacent areas, for instance, Financial Crime Ops in BFS, and extending our digitally-empowered contact center solution for the edtech world to drive a better learner CX. We launched a consulting practice idea and our data integrity practice and meaningfully grew our EdTech segment. In the first year, we converted four consulting engagements to annuity contracts. The utility segment within the diverse vertical grew nicely 43% year-on-year, albeit on a small base, on the back of our DECX, or digitally-empowered contact center offering, its maturity, and digital connections.

Let's talk briefly about our delivery ecosystem. We expanded our delivery footprint to two new geographies, Mexico and South Africa, and further strengthened our Philippines operations to help address the increasing challenges of sourcing the right talent and the client need for greater value extraction. Now we are present in six countries. And finally, driving growth through new client additions and systematic account mining. We added 73 new clients this year, and we did well to expand most of our key relationships across non-mortgage BFS, CMT, and HPHS.

Our approach for Fiscal 24 continues to refine these building blocks. As we look forward to the start of the new fiscal, I'm confident that we have reduced cyclicality in our business, even as the global economic environment and sentiment is increasingly uncertain. From a current vantage point, we are expecting to achieve constant currency growth of 2% to 5% in Fiscal 24, with an operating margin range of 11% to 12%. This factors in a sequential decline in Q1, followed by steady growth from Q2 onwards. This guidance assumes a 3% revenue headwind from our mortgage business, given H1 of 23 was higher than H2 of 23. A 3% revenue headwind from our onshore-offshore estate rebalancing. I have spoken previously about our intent to grow offshore more meaningfully. I'm pleased with the progress. We are in advanced discussions with a couple of key clients to realign their onshore-offshore footprint during this fiscal year. While the absolute revenues realized will decline due to billing rate differential, we expect the margins to expand.

Operating margins will benefit from the multiple initiatives in Fiscal 23 to take costs out and protect margin erosion. We are now back to our normalized margin range. The key levers that we have factored in our operating margin guidance are margin recovery across mortgage business and the acquired businesses, onshore-offshore rebalancing, and growth in our digital service line. Operating margins should remain in our desired range through this year.

Let's talk in detail about the key trends in our industry segments to give you a better color on our growth drivers.

Mortgage:

Starting with mortgage, the last 12-18 months have been turbulent for this industry, to say the least. The mortgage segment clearly took the bulk of the mindshare for both you and us alike. We believe that the industry has moved past the worst of the volatility triggered by this unique economic cycle. Interest rates have been moving within a narrow range, and the industry expects a modest pickup in volume over the next 12 months.

We are confident that we can manage any further volatility without a material impact on our overall performance, especially considering that this segment now contributes less than 9% of our overall revenue. For our portfolio, we also believe that volumes have more or less bottomed out, and we should not see a material decline unless there is a significant shift in the macro environment. We continue to focus on adding new clients and scaling capabilities to accelerate diversification beyond origination. Most of the pipeline activity currently is around servicing and capital markets.

For Fiscal 24, we are projecting mortgage to operate closer to our Q4 Fiscal 23 exit runway for H1, and then moderate growth in H2 based on recent wins and current pipeline.

Collections:

In the collections segment, the consumer credit metrics continue to soften, which is a positive for our business. Overall, U.S. card debt delinquencies rose to 2.25% versus 2.09% in the last quarter, and the charge-offs were at 2.55% versus 2.11% in the last quarter. Over the last couple of weeks, most of the large U.S. banks declared their Q1 CY23 earnings.

The consistent themes across these commentaries were, one, consumer debt is now higher than pre-pandemic, and credit tightening has begun. Two, consumer balance sheets are still quite strong and remain near all-time high, driven by low unemployment rates and high wages. And three, delinquencies while still below 2020 levels are expected to rise. The provisions made for credit losses by these banks are gradually climbing each quarter. Considering above trends, we expect our collection business to witness a gradual recovery throughout the year. The sales activity and the new client additions remain strong, and we added six new clients in Q4 of Fiscal 23.

For Fiscal 24, our key priorities for the collection business are, #1. we continue to diversify collections as a multi-industry offering with penetration into fintechs, auto, and across telecom and utilities. #2. Expand geographically to the U.K. #3. Stay focused on the digital collections platform's roadmap, and reducing client on-boarding timelines #4. Continue to drive revenue and margin growth in our legal collection segment.

UK BFS:

U.K. BFS continues to drive a strong growth. We are actively pursuing expansion across our key banking relationships by penetrating into new divisions and focusing on growing offshore. There is continued focus on digitization of contact centers through call deflection, to self-serve and chat. We continue to see good growth in financial crime operations as well. The growth in U.K. BFS has helped us diversify in the broader BFS segment and de-risk from mortgage concentration. We expect the momentum to continue well into Fiscal 24 with a sharp focus on new client additions and more offshore business activity.

Healthcare:

This segment remains steady. The business continues to grow well and clocked an 8.7% year-on-year growth for Fiscal 23 in constant currency flow. The growth rate has slowed down primarily from conclusion of project-based engagements, delays in deal closure, and continued softness in the provider segment. Our provider business has witnessed significant headwinds over the last couple of years due to the public health emergency enforced by the U.S. government. As per the recent government notification, the PHE or the public health emergency will finally be lifted on May 11, 2023, so in a week from now, fingers crossed, ending the continuous Medicaid enrollment provision that has been in place since 2020. This change is expected to result in an estimated 5 to 14 million people losing their Medicaid coverage. A large part of this segment is likely to be uninsured, a segment our eligibility services and patient access practice focus on. We expect strong growth vectors to emerge from this change in H2 of Fiscal 24.

In the health plan segment, we are witnessing somewhat of a slowdown in deal closure, especially where the solution involves significant transformation or digital intervention. Having said that, the deal pipeline remains strong. We've seen good traction, proactively working with clients in moving parts of value chains offshore. We continue to scale our capabilities and have made small starts in the higher value appeals and grievances and claim automation segment.

For Fiscal 24, our focus for the healthcare segment is to reverse the revenue decline in provider and scale offshore across both provider and HPHS. Over the last 12-18 months, we've had several multi-wins in our digital intake practice in HPHS. Now the focus is on ramping up these engagements and further strengthening the digital intake platform. And the last piece I'll mention is that we are going aggressively in the plan B plus market to build on the couple of wins we've had in the last 18 odd months.

CMT:

The CMT segment continues its strong growth trajectory. In Fiscal 23, the segment grew 14% year-on-year in constant currency. We've done well on two areas. One, scaling our U.S. CM business, which we've been incubating and building from scratch organically. This segment is now more than 4% of the overall revenues and growing nicely. This remains one of our key priorities for Fiscal 24, and we expect to see meaningful growth in this segment. And second, adding new capabilities and markets. Over the last two years, we've successfully made inroads into edtech, digital media, and tech verticals. We've added several marquee clients, and we're taking good growth momentum here.

And finally, our relationship with our top client remains strong. During the year, we added high-value work offshore, underpinned by increasing client confidence in our capabilities. We continue to explore new growth opportunities in their estate.

Diverse:

It's been a while since we spoke about a diverse business segment. This segment primarily focuses on utilities and other industries which are still early stages for us, and where we are evolving our strategy and offerings. You would recollect us winning a deal with one of the top three utility providers in the U.K. a few years ago. Our relationship has significantly strengthened since, and we are today one of their top three outsourcing partners. We expect this relationship to grow considerably in Fiscal 24 on the back of the recent wins they've had with the client. We're in the process of expanding our delivery footprint to South Africa with this anchor client and further scaling our offshore estate.

In summary, while Fiscal 23 was a challenging year for our cyclical businesses, we are pleased with the progress in building the rest of the business, diversifying our portfolio, and progress in our digital offerings. We look forward to updating you over the coming quarters and progress against the strategy.

Let me now hand over the call to Dinesh to give an overview of our financial results.

Dinesh Jain:

Thank you, Vipul. Good morning, everyone. Here is a quick snapshot of our financial for the quarter and full year end date, March 31st, 2023. Revenue for the fourth quarter came in at INR 15,568 million or \$190 million. This implies a year-on-year growth of 0.8% in revenue terms and constant currency terms de-growth of 2.8%. For the full year, revenue came in at INR 60,223 million or \$750 million, implies a year-on-year growth of 1.7% in rupee term and constant currency term de-growth of 1.1%.

On a margin front, operating margin came in at INR 1,799 million or 11.6%. This is an expansion of 220 basis points quarter-on-quarter. For the year, operating margin came in at INR 5,633 million or 9.4%. Profit after tax came in at INR 1,413 million or 9.1% of the revenue for the quarter, a year-on-year margin improvement of 50 basis points. For the year, profit after tax came in at INR 5,137 million or 8.5%. Our cash generation always remains strong. We generated INR 7,634 million cash from operations and our free cash flow was INR 7,120 million after adjusting for capex of INR 514 million.

The closing cash balance including investment stood at INR 2,111 million. Net debt stood at INR 6,159 million or \$75 million which in compared to last year almost at 26% lower. Last year, our debt was INR 8,013 million or \$106 million. DSO came in at 60 days versus the 61 days last quarter. Tax rate for the full year was around 16.5%. For FY 24, we expect to be in the range of 18% to 20% and in that we also factor that U.K. tax rate is moving from 19% to 25% so that will have also some percentage increase in the tax rate which we are seeing.

On our forex hedging, we have coverage of GBP 44 million for the next 12 months with average rate of INR 102 to a pound and coverage of \$60.5 million with average rate of INR 84 to a dollar. For 12 to 24 months, we have also done some coverage on GBP 12.5 million with an average rate of INR 105 to a pound. In addition, we have taken options on these forwards to better our realization rates.

This is all from my side. Now I will open up for the Q&A and move back to the moderator.

Moderator: Thank you very much, sir. We take a first question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Just wanted to get a little bit clarity on the operating margin side outlook that you have shared. Based on the kind of savings that you have done in this course of quarter and you've seen growth coming back into the business. And so from that perspective, you think this 11% to 12% margin is a bit on the conservative side or you think some more cost factors that would need to take care during the course of the year which makes you think that this is the ideal margin for you for the next year?

Vipul Khanna: So look, operating margin, as we said, we've steadily been improving after a very rough H1. Q4 was 11.6% and we guided 11 to 12% for the year. I think we've done well on the cost discipline and aligning our cost to the business volumes that we had, especially mortgage. As we go into the next year, as you said, there will be decent growth sort of coming virtually across segments.

But we also want to be cautious against the uncertainties in the economic environment. The environment is fairly dynamic. We want to make sure that we are cognizant of that. There were some elements of our growth investments that we had moderated out in the last year. I think we'll also kind of go back to some of that. So that's kind of another put into it.

And overall, I think we feel good that we're starting off a good base and if we can get the momentum through the year, we should be able to kind of meet this operating margin.

Rahul Jain: Right. And second question, you said about this public health emergency finally taking a pause. So from this perspective, is there any understanding from past or any feeling you're getting from the conversation that how this could shape up? You're expecting it to pick up in H2, but how is the general behavior and any reading on that and how it should go back?

Vipul Khanna: Sure. So look, I think the central government is making it, devolving it to the states to figure out how they want to roll back this requirement of automatic enrollment. So every state will take its own course. Obviously, it will be driven by political and philosophical considerations of each state. So it will be kind of a gradual roll off.

At a simplistic level, we think the demand will come in two ways. One will be a catch-up demand for people. As they fall off, they'll be like, hey, quick, go and catch up there. And then there will be a more settling in of a new equilibrium or getting the equilibrium back to sort of the old pre-COVID days. So I think there will be a little bit of a bumpy demand to catch up, and then it'll settle into a new routine. We are having great conversations as states, plans, as well as providers get ready for this fallout to start happening.

Some of them are preparing. Some of them are proactively engaging. We've had some wins for getting ready for both health plans and providers to catch the fallout so that they don't lose revenue. So each time somebody falls off, it's revenue loss for them. So we see that sort of decent demand coming through. So we'll see wins. We'll see traction. But I think the revenue will start to come more towards H2 in this segment.

Moderator: Thank you. We'll take the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Three questions. First is, if you could help me understand this growth in telecom, outside top clients, and then others diverse segments. Is there a one-off or something that you have experienced this quarter, given the growth guidance, or do you think this can continue? So that's one, and then I have two follow-ups.

Vipul Khanna: So no, in both, this has been a very, ground-up organic build. So, it started from small wins, like the utility example, started with one-off win, where we were one of the challenger partners. We've gradually earned the right to be like the main partner now, and others kind of shift to the challenger thing. And it's the growth that we've seen is in a long-term sort of annuity contract. So, on the utility side, it's not one-off. And on the strength of that, we won a second top-five client. It will again start small, but at least we can diversify the mainstream offerings out there.

Mohit Jain: So, the ramp-up is done, or will it continue in Q1 as well?

Vipul Khanna: The ramps will kind of continue through into the next fiscal.

Mohit Jain: Yes. And you were talking about telecom outside?

Vipul Khanna: Yes, same. So, they are the segments that we've been focused on, whether it's the non-U.K. communications or the edtech and tech segments. That's been slow, gradual builds, organic. So the wins are, they started small. Some of them are starting to look like one of the edtech clients that we had signed in the education testing space. You know, when I add up everything that we signed up, it's a good five-year, \$15, \$16 million TCV now. So, it's kind of coming to be a big client and basis that we kind of go back to the markets for other meaningful wins.

- Mohit Jain:** This is in the U.S. or Europe?
- Vipul Khanna:** U.S.
- Mohit Jain:** Okay, so telecom outside top line, we should see more like U.S. growth than Europe growth.
- Vipul Khanna:** There is some Europe growth as well, but more pronounced in the US.
- Mohit Jain:** And the second one was your guidance. Now, why there should be a decline in 1Q, meaning, I'm just guessing, could be collections maybe, but if there is no one-off, then what is giving us that decline? Subsequently, the growth appears relatively slow at, say, 4% midpoint for next year.
- Vipul Khanna:** So a couple of reasons for that. One, there is an element of seasonality from collections and open enrollment from HPHS, which will taper down in Q1. Second, there was some project-based work, especially in healthcare, which has wound on and is winding down. That will have some impact. And then finally, the large BPaaS deal in HPHS that we had announced, it had an implementation phase which had meaningful revenue. That phase has come to an end, and now we are in a steady state. So that also has an impact on the start of the HPHS revenue. Those are the three main factors for Q1 being somewhat lower than Q4.
- Mohit Jain:** So mostly driven by healthcare decline. The rest of the verticals are fine.
- Vipul Khanna:** Healthcare and some amount of seasonality in collections.
- Mohit Jain:** Collections, right. And, sir, guidance at 4%, like, we are coming off a very low base. Is there, like, some ramp down, etcetera, which we are anticipating on the market and stuff? Because I thought we would probably do around 5% at least at the midpoint and 2% is also flattish
- Vipul Khanna:** So, Mohit, as I said, we have identified and called out two headwinds. One is the year-on-year decline from mortgage, because H1 started strong. Right now, we are assuming Q4 run rate expanding with some moderate growth in H2 for mortgage. So that's about a 3% headwind year-on-year. And then we have the unusual, almost revenue decay of about 3% from the onshore-to-offshore movement.
- Now, that's a proactive strategy. We have been vectoring our growth, new growth for offshore. But in our existing portfolio, we have this movement, which is most likely to come into this year. So we wanted to call it out at this stage, that in a couple of clients, we'll see this movement. So that's another 3%. And I add this 6% to the midpoint that you, for instance, that you picked up. We start to get into sort of late single-digit, early double-digit sort of growth trajectory. But these are the two exceptional things which we are calling out.
- Mohit Jain:** Okay. And the last one for Dinesh, sir. Is there any payout left for FY'24? Or are we more or less done with the payouts related to acquisitions and the subsidiary stake?

- Dinesh Jain:** Acquisition-related, there was no payout done because they have not achieved the target. So that has been closed for both the acquisitions. So there is no more pending on that. On the equity related, there is one more revenue target which they have to achieve in FY 24. And on that basis, there is a payout for them. But as of today, I think it's a whole year available and where we still have discussion with them going on, how much revenue they will be going to bring on the table and accordingly, will come back as we get more clarity during the year.
- Mohit Jain:** You have this amount of \$11-odd million for FY24?
- Dinesh Jain:** No, FY24 will be, I think, \$4.5 million.
- Mohit Jain:** And then FY25 will have another payout?
- Dinesh Jain:** No, there is nothing. Only the FY 24 is the one year which has been left.
- Mohit Jain:** Okay. Perfect, sir. Thank you.
- Moderator:** Thank you. We'll take your next question from the line of Shradha from AMSEC. Please go ahead.
- Shradha:** Congrats on a good quarter. Just on the guidance bit again. So what is the kind of decline that we are expecting in 1Q?
- Vipul Khanna:** Sequential decline?
- Shradha:** Yes, sequential decline.
- Vipul Khanna:** At this stage, we think it will be between 1% to 2%, Yes, throughout that range.
- Shradha:** 1% and 3%.
- Vipul Khanna:** Or let's call it 1% to 2.5%.
- Shradha:** Okay. So this is primarily related to the project work rampdown that we are expecting in healthcare.
- Vipul Khanna:** Healthcare, the implementation phase being over for a large program. And then the seasonality of collections.
- Shradha:** Right. So if we talk about, say, 2.5%, 3% decline in 1Q, then I think starting 2Q to get to the mid-end of the guidance, you would have to do some heavy lifting. So what kind of visibility do we have to be talking of, achieving the mid-end of the guidance if you're talking of a 3% kind of a decline in 1Q?

Vipul Khanna: Yes. So the way we are looking at it, it translates to a CQGR of about 3.5% to 5% from Q2-to-Q4, in those three quarters. I think, if you think about the collections, it will build-up. We've seen signs for that. We have good traction in the healthcare segment from a deal closure standpoint, which we know is under implementation. And as we get into Q2, we'll start to see revenue kind of booked from there. I talked about growth coming back to providers, So we've been conservative for H1 for provider. We think it should result into something meaningful in provider.

And then our new businesses that we are talking about. Right now, obviously, they're on small base. So we are expecting pretty good revenue growth from them. So I think we add up all that. We feel pretty good about the guidance that we're giving at this stage. The newer businesses, they're still pretty young. The pipeline is building. So to that extent, the pipeline is binary in the sense you don't have a big pipeline that even if you lose two-thirds of the deal and even one-third of the deal, you'll kind of get your numbers.

Today, when you have a smaller pipeline, it's binary. If we have some good wins, right, we should have better numbers. If we don't, that's what we're modeling at this stage on the 2% to 5% guidance. So I'm trying to give you colors of the different businesses and how we think it will play out through the year to get to that 3.5%, 5%.

Shradha: But it is based on more of hope of recovery in the second half, because the seasonality collection business will play out and the healthcare provider segment growth will play out only in the second half. So maybe we're talking of, very high growth rates in 3Q and 4Q, and that is just based on hope of recovery, right? I mean, rather than anything concrete in the deal pipeline as such currently?

Vipul Khanna: No, I wouldn't say that. What the growth, even for provider, when I'm talking about H2 growth, it'll come in the deals, it'll come on the conversation that we have, we're having now, or the wins we've secured, right? We've told that in provider, the revenue build takes a while, because your inventory builds up, and then sort of when the collections, the revenue billing for that happens for our client, after that we get done, right? So there's a while, even if you're in a large deal, it takes a while. So we've baked all of that in when we've given you guidance of 2% to 5%. We've taken a little bit of a broader range as well this time.

Shradha: Right. And just for this quarter, the other expenses did see an increase, significant increase. So what was it related to?

Dinesh Jain: Within other expenses there is an item for the new collection business, which we got, which is the legal expense. As the revenue grows up in that segment, there is also the work we do with the business associate, which is part of other expenses. So that's the reason this expense is higher. Along with the revenue, which we get through that. So there are no exceptional as such.

Shradha: Okay. And Vipul, would it be possible for you to call out the exit run rate in the mortgage business and similar for collections and UK BFS?

Vipul Khanna: So mortgage, we were closer to \$70 million for Q4. I don't have the breakdown between collections handy, but collections put together, we were closer to \$32 million, \$33 million, I think, is that right?

- Ankur Maheshwari:** Collections, I think, was close to about \$36 million.
- Vipul Khanna:** Also keep in mind that today, because as you expanded collections, it's become like a still dominated by BFS, but there are components of that, which go into CMT as well, right. And the Diverse, which is utilities. So to that extent, we look at it as a horizontal, but what you see when we go out to use the vertical numbers, right, which is banking, CMT, and healthcare. So it kind of doesn't necessarily stature that all collections goes into BFS now.
- Shradha:** The \$36 million is spread across the three verticals that you're talking about, or is this only BFS collections?
- Ankur Maheshwari:** No, this is all industries, except healthcare.
- Shradha:** Okay. Got it. Yes. Thank you and all the best.
- Moderator:** Thank you. We take the next question from the line of Dipesh Mehta from Emkay Global. Please go ahead.
- Dipesh Mehta:** Thanks for the opportunity. Just one clarification on the prior question. Collection, when we say \$36 million, it is only BFS collection, or you include other things? Because I heard it is ex-healthcare. In a way, it includes utility-related collection business also. There we have seen \$4 million swing quarter-on-quarter, but collection is not showing any kind of uptick. So if you can clarify, that is first question.
- Second question is about healthcare. Vipul, how you judge our performance in healthcare for FY 23? You think it meets your expectation or it is below expectation or exceed expectation? What led to that deviation in your opinion and how you expect it to evolve in next few quarters?
- Third question is about margin. Now, there are few things which are very supportive to margin. First is about 3% offshore which you highlighted. Second thing is provider business recovery, which is more profitable than rest of the business. Third thing is now no significant revenue decline kind of segment where we have challenges from margin management perspective. Despite that, our trajectory is different than Q4. Ideally, it should be at least Q4 and above Q4 kind of trajectory. So what plays out in terms of the way you think build-up of margin over medium term?
- Fourth question is about more about to understand this data integrated practice, which you launched during the Q4 for tech industries. How should one understand that practice? What we do? And what would be the potential TAM or kind of opportunities? Thanks.
- Ankur Maheshwari:** Dipesh, let me take the first question, and then probably I'll hand over to Vipul. So on collections, the number that we speak of includes the BFS, comms, media & tech, and diverse, right, which is non-effectively, all non-healthcare collections is captured in that collections number. The healthcare collections is part of the provider business.
- Dipesh Mehta:** Then, Ankur, in that case, the \$4 million things which we are seeing in diversified industries should also get reflected in collection revenue trajectory, which is not the case. So what explains that deviation?

- Ankur Maheshwari:** So that was all entirely coming from the collections vertical. I think, as Vipul talked about in the opening remarks, that growth is a function of our efforts from the, large entity clients in our contact center practice area, DECC practice area, as well as new wins and some element of growth coming from collections entity clients. The entire growth is definitely not from that segment.
- Dipesh Mehta:** Because if I remember correctly, last time we highlighted collection is around \$34 million, \$35 million, for Q3. This quarter, we are seeing \$36 million.
- Ankur Maheshwari:** Yes, I mean, we can go through the numbers later on and we can discuss them.
- Dipesh Mehta:** Sure, maybe we can take a look at it.
- Vipul Khanna:** Okay. On the healthcare side, let me give you some color, and then I'll come to sort of where I think in terms of against my expectations. So let me take HPHS first, right? HPHS in fiscal 22 and towards the end of 21 had some pretty meaningful wins, good trajectory. And good quality wins on digital intake, BPaaS, and sort of classic member services, claim services etcetera. A lot of them with very large health plans. I think, H2 of this year, we've taken almost somewhat of a natural breather to make sure that we execute on those complex engagements, Get the focus of the organization to deliver to them. That's the kind of one factor to keep in mind.
- Second, now that we are serving eight of the Top 10, some with decent-sized relationships, some that we just opened, wherever meaningful growth will come, these guys are already on to their third or fourth generation of outsourcing. Their process is pretty sophisticated, pretty long. And even when you win a deal in that very competitive RFP environment, the switch out from their existing invariably another partner to a new one takes longer. It's not classic.
- So the pursuit timeline as well as the execution and the switch timeline longer is one of the learnings that we've taken. Now that we go and play sort of head-to-head with the, for the big health plans with the big boys, that's sort of one phenomenon which has kind of played out for us in this year. The digital intake platform, which we took it as an entry strategy to break into these accounts, it got us some wins, but it had some execution cycle to develop that. And we're still on that road map to kind of develop and complete that development.
- So when I put those two factors, I think it's kind of moderated some of the growth in a good way that it has allowed us to build the foundation more. I think the pipeline is strong. We are off to a good start in April in terms of the new deal wins. But overall, I would still expect that FY 24 for HPHS will be with this sort of mid-single-digit growth and then sort of starts to accelerate there.
- Providers, we have talked enough, what has ailed it. We play in a specific segment which was the most impacted by PHE. Now we're hoping that once PHE goes away, the market comes back in a new manner, looks for more digital solution, looks for more automated solution, and we are ready for that. But FY23 was kind of rough, right, in terms of the momentum there and the lack of momentum there. So overall, we're kind of disappointed by how providers played out, but the team has worked hard.

We've expanded our strategy. We've started off on a good note thus far in this quarter in terms of types of wins that we wanted. Some of it we'll come back and talk in when we finish Q1 once we lock it out to give you sort of how that expands it. Overall, I'm still very bullish about this segment. If I take the next two to three-year view, both payer and provider, there's lots of headroom for growth there for us and for that segment. This year for HPHS was a little bit of a moderated year, but it should pick up. That's the healthcare part.

On the data integrity practice, this largely goes the big value chain. At the entry-level end is the data labeling part, and the top end, it starts to get into data architecture and sort of data guardianships and stuff like that. With the increase in sort of machine learning models everywhere, not just in the big tech companies and platform companies, but even other business enterprises starting to embrace it, we think it's an attractive opportunity. That's why we've come in. At the low end, there is obviously a lot of smaller players as well and distributed around the world, including Tier 3, Tier 4. But as you get into more sophisticated stuff in the middle path, not even the high-end IT world, but even the middle path, we think there is enough bulge there for us to kind of get in and make a jump.

Also, this allows us to break into the tech segment. These guys are mature buyers. The world serves them. This becomes one of our entry strategies to get into the big FANG vendors, big FANG sort of client base, and start to look around for other work. So those are the two drivers for us to get into data integrity. We'll segment out the TAM for you on this one and where we want to play and come back so that we don't give you the big blasé number, which a lot of consultants are throwing about data integrity. I want to come with a number which we are targeting and not go either too low end or too high end.

On the margin question, yes, we had hard work to kind of bring to sort of where we did on our operating margin. Next year, we will obviously, as I said, you identified, we'll get some lift from mortgage recovery. We'll get some lift from providers. The takes against that is we'll get some amount of marginal impact from the Ind AS accounting benefit we had in fiscal 23. That helped us in FY23. So, some of it will kind of not be there in FY24. We have to work for that.

But overall, I want to be cautious in terms of what we guide. It's early on. A lot of uncertainty in the market out there at this point in time. So we want to make sure that we start cautiously. And as things kind of play out, we'll see if we need to do anything else to the margin guidance at this stage. But for this number, 11% to 12%, we feel good. We see good paths to sort of achieving this number at this point in time.

Dipesh Mehta: Understand, thank you very much.

Moderator: Thank you. We'll take the next question from the line of Rucheeta Kadge from iWealth. Please go ahead.

Rucheeta Kadge: Congratulations on a good set of numbers. So basically, I missed your opening statement. So if you could just repeat what was the guidance on the sales side? And if I heard it right, the operating margin is what you're saying is 11% to 12% guidance.

- Vipul Khanna:** Correct. The revenue growth guidance, Rucheeta, at this stage, we are saying will be between 2% to 5% for fiscal 24. After baking in a 3% headwind from the mortgage business year-on-year decline from, given H1 was higher. And about 3% headwind from the offshore-onshore estate rebalancing we expect with some of our key clients in later part of this year.
- Rucheeta Kadge:** Okay. And the operating margin, which currently in FY 23, you did around 13%. So that you're reducing it further?
- Vipul Khanna:** No. We did 9.4% for the full year. Our quarterly run rate was Q4 run rate was 11.6%.
- Rucheeta Kadge:** Is it the EBIT margin that you're talking about post depreciation?
- Vipul Khanna:** Yes. Operating margin is the EBIT, yes. You're correct.
- Rucheeta Kadge:** Okay. So that you're guiding for 11% to 12%?
- Vipul Khanna:** Yes.
- Rucheeta Kadge:** Okay. Got it. Got it. Thank you so much. That is it.
- Vipul Khanna:** Thank you.
- Moderator:** Thank you. We'll take the next question from the line of Sameer Pardikar from ICICI Direct. Please go ahead.
- Sameer Pardikar:** So thank you for the opportunity. Book-keeping question from my side. So what is the mortgage number for FY 23?
- Vipul Khanna:** The full year number?
- Sameer Pardikar:** Yes.
- Vipul Khanna:** Yes. Full year, we were more like \$92 million -\$93 million.
- Sameer Pardikar:** Against \$216 million that we put in FY 22, is my understanding correct?
- Vipul Khanna:** Correct.
- Sameer Pardikar:** And what would be the rough breakup of origination and servicing in that number for FY 23?
- Vipul Khanna:** For Q4, it was more one-third origination, two-thirds servicing. For the full year, Ankur do you have it handy? For the full year, what's the distribution, fiscal 23?
- Ankur Maheshwari:** Yes. Sorry. So for full year, I think it was \$35 million origination and about \$58 million in servicing.
- Sameer Pardikar:** Okay. Thank you very much.

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

Dipesh Mehta: Yes. Thanks for the opportunity. This is a slightly medium-term question. Just want to understand a potential impact from generative AI or ChatGPT on overall business. How much volume impact do you expect through automation over the next three, five years? And can you highlight a portion of business which is likely to get first impacted, where it is easier to automate versus, let's say, very difficult to automate kind of processes? Thanks.

Vipul Khanna: Yes, sure. So this is a very hot topic everywhere, Dipesh, rightly so. We are thinking of generative AI impact in sort of two or three dimensions. One is the external dimension in terms of how do we bake that into our products and services. In terms of where it impacts most, logically, from an outside in, if you look at it, chat is a good use case. Today, when we humans chat with a customer, once generative AI is able to work within an enterprise boundary and work through sort of extracting data from different systems, like a billing system, a customer activity system, a pricing system, whatever else sort of comes out of their product databases, etcetera.

Once generative AI is able to work and pull out data from very structured databases, then I think it's a good use case for chat to become very smart and generative AI helping humans kind of do that. Likewise, theoretically, we could see at this stage, we'll get there medium term. But as you see more-and-more voice to text conversion, real time, and then through that text, you can use generative AI to help an agent answer or service the question better. That provides for a better CX and obviously far more greater efficiency in servicing that part. So, those are sort of clear examples of using it.

Then there are obviously intermediary use cases of saying, can I use it efficiently for doing after call work? So, typically, if I take 10% after I finish a call to capture what happened in my conversation with Dipesh, so that the next time Dipesh calls, I have reference to that, that part, the 10% or the 15% work can be automated. That's kind of the possibility. And then you can extend it further to say, I can use it far more efficiently for internal training purposes, training for folks and stuff like that.

As far as impact on back office systems is concerned, I think that will be a little bit longer. At this stage, it looks like it'll be a longer haul. Because by definition, what you're doing in back office is the exception processing. If systems could process what they call doing in straight through processing rate, it would have gone through. So, if you look at claims example in healthcare, today, most of our clients would have auto claim adjudication rate, depending on who they are and sort of how their systems are set up. Anywhere from 70% to best in class is 90% some auto adjudication rates.

What we do as an industry, as Firstsource, is the fallout, which is the 30% to 10% or the 5% fallout which happens. Those are invariably pretty complex, require data retrieval, require judgment, etcetera, and empathy as well kind of doing that. There, for us to find the specific use case of generative AI which can work specific to a client environment and the rule set that they would have done in their engine, that's a longer haul. And we'll see movement there.

But it'll require some specialized investments out there by industry players. And we are looking broadly to say, whom do we partner with and where do we apply it first? So, an area to really, really watch for, it's an important development. And we are all in, we are on it both externally and internally to make sure we use it as an opportunity and then do what is right for our clients to kind of convert to that. Sorry, long answer, but I wanted to give you a color sense of how we're thinking about it at this stage.

Dipesh Mehta: Yes, thank you very much for the information.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would now like to hand the conference back over to the management for closing comments. Over to you, sir.

Vipul Khanna: Great. Well, thank you all. Thank you again for your interest, your engagement and your great questions until the next time. Thank you, and goodbye.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of Firstsource Solutions Limited, that concludes this conference. Thanks for joining with us. You may now disconnect your lines.