

9<sup>th</sup> August 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 August 02, 2023**

Please find enclosed the transcripts of the Analysts earnings call conducted on 3<sup>rd</sup> August 2023 for the meeting of Board of Directors held on August 02, 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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# Q1 FY2024 Earnings Call Transcript

## August 3, 2023

### CORPORATE PARTICIPANTS

Mr. Vipul Khanna - Managing Director & Chief Executive Officer

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Mr. Dinesh Jain - President and Chief Financial Officer

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Mr. Ankur Maheshwari – Head, Investor Relations

**Moderator:** Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q1 FY2024 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:** Thanks Michelle. Welcome everyone and thank you for joining us for the quarter ended June 30, 2023 earnings call for Firstsource. On this call we have Vipul Khanna, MD and CEO and Dinesh Jain, CFO to provide an overview on Company’s performance followed by Q&A. Do note that the results, the fact sheet and the presentation have been e-mailed to you and you can also view this on our website [www.firstsource.com](http://www.firstsource.com).

Before we begin this 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 hand the call over to Mr. Vipul Khanna to begin the proceedings.

**Vipul Khanna:** Thanks Ankur. Hello everyone. Welcome and thank you for joining us today. I am happy to state that the performance in our latest quarter was in line with the guidance.

**Quick Snapshot of the Quarter**

This quarter our revenues were INR 15,292 million or \$186 million declining 1.6% year-on-year in constant currency. Operating margins improved about 375 basis points year-on-year to come in at 11.7%. The diluted EPS came in at INR 1.8 for the quarter.

**Our growth strategy as outlined previously is centered on three key vectors:**

1. Reduced exposure to macro-cyclicity and drives the next phase of our growth by broadening our BFS option and scaling new segments in Healthcare, Communications, Media & Tech (CMT), and Utilities.
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 including harnessing rapid developments in AI, especially Generative AI.

I am very pleased with the progress that we are making in each of these, there are some quick updates:

- We made considerable strides in growing our US CMT and Europe Utilities client base over this past year and highlighted the FY2023 events in both these segments. These are all scaling well. This is helping us to expand the share of Utilities in US CMT in our overall business mix. At the same time, we continue to carefully recalibrate our mortgage business into purchase financing, servicing and compliance operations while

expanding into new products like reverse mortgages. For this quarter mortgage was around 9% of revenue down from 17% a year ago as we built other BFS segments.

- Our new client additions remain strong. In this quarter we added 10 new clients with four in BFS, five in Healthcare, and one in CMT. We expect these new relationships to scale gradually over the next 12 to 15 months depending on the process complexity.
- Lastly our pipeline in digital and platforms, automation, and analytics for the clients across industry continues to expand especially in the areas of digital input, digital collections and our process automation practice.

Over the last six to nine months, Generative AI (GAI) has commanded significant mindshare. We believe this new technology will accelerate the digital agenda across the client ecosystem. We are actively working with our tech partners and our clients to co-create multiple use cases with this new tech. Currently, we have more than a dozen implementations in various phases from proof of concept to pilots to production across six different clients and in-house use cases.

Let me highlight a couple of use cases where we have leveraged GAI and Machine Learning to develop efficient and cost-effective solutions.

- In one of our large media clients, they needed to quickly scale native-speaking agents to support sales but were not able to achieve the goals due to lack of talent supply. We solved this by implementing an ML-based machine translation solution over chat and e-mail thus providing services across multiple languages from India. We achieved over 98% accuracy in comprehensibility of the translated language enabling customers' chat similar to that expected list of native speakers but at a faster pace and obviously at a much lower cost.
- In another instance, we helped one of our new EdTech clients manage the inbound enquiries by implementing a touchless solution that identifies the customers' intent. Our solution powered by GAI again understands what the customer is looking for and puts together a response that is comprehensive, accurate, timely, and actionable. We have reduced the turnaround time from two weeks to one day, helping students of this client meet their admission and other travel-related time constraint requirements on time.

Let me also share a positive update on our top client relationship.

I am pleased to inform that we have further cemented our relationship with this client and have extended our contract to serve as their primary partner for another 10 years. This is a huge testament of the relationship we have built over the years and the value we provide to our clients. During the last few years there has been several strategic changes at our clients' end including change in ownership, business volumes have been volatile owing to both macro environment and the current situation in UK and as we all know technology has significantly evolved over this period. Through all these changes and turmoil our performance and strategic intent has helped us strengthen this relationship and the client continues to leverage us as their strategic partner for growth as well as change and efficiency.

A core part of our thesis for this next leg of our journey is to enable our client to offer cost effective services from offshore location. We are in the process of moving the considerable portion of our operation in the UK to various

locations in India for this account. This is a big part of the 3% revenue headwinds we had estimated at the start of the year. We now estimate the onshore to offshore impact to be 3.5%-4% including the movements in Healthcare and BFS. As a part of this transition, we will now serve complex and sophisticated processes from India. Overall the underlying portfolio work remains the same and there is potential for growth.

Let me now provide some colour on the operating environment:

Among our major markets, the UK economy is experiencing a slowdown that has affected volumes across our core portfolio. In the US, however, the economy has been relatively resilient; clients are taking their time to decide on large transformation deals. The positive theme is that engagement on cost optimization programs remains strong across industries.

Let us talk in detail about the key trends in our industry segment to give you a better colour on our growth drivers.

### **BFS**

Our BFS segment declined by 13.6% year-on-year primarily due to the mortgage base effect, sequentially the revenues were down 1.5%.

### **Mortgage:**

Overall, our mortgage business has now stabilized. We believe that the worst of volatility in this business is behind us and volumes have bottomed out unless there is a significant shift in the macro environment from here. We continue to engage our mortgage clients on strategic cost saving program and we had a very solid sales quarter.

The origination volumes inched up slightly in the last few months. Our clients expect Refi activity to pick up only after the FED reverses the direction on interest rate movement. Home purchase volumes are steady with a rise in new home project started by home builders. Purchase demand for existing property in high growth regions in the US continues to be strong, however, the interest rate swap to higher mortgages is a roadblock for sellers.

We continue to make solid progress on diversifying our portfolio. Here are some examples:

- In one case, we used our mortgage quality control as a lead offering to open a large bank in our target account list.
- In another case, we meaningfully expanded our relationship with the leading originator with an extensive presence in the wholesale market.

Our overall outlook for mortgage for the year remains unchanged.

### **Collections:**

In the collection segment, the macro indicators continue to suggest an increase in business activity in the near future. US credit card delinquencies continue to rise and we are at 2.43% versus 2.25% last quarter, charge-offs were 2.90% versus 2.54% last quarter, the sixth consecutive quarterly increase post COVID. Similar trends are seen in the latest earnings of the large US banks.

Normalizing for seasonality of Q4 FY2023, we are seeing encouraging trends in this business. We maintain our assessment of gradual recovery in this business through the year especially, in H2. The early stage collection segment will start to reflect the sooner than the legal collection, which would see an uptick from Q4 of this year or perhaps even Q1 of next year.

We continue to make good progress in acquiring new clients and cross selling into our existing portfolio. In this quarter we added four new clients. Last year I spoke about our intent to diversify BFS into other segments beyond cards and the mortgage industry. One such area we identified was expanding in the auto finance segment. We are seeing green shoots of success and have added two new clients and expanded three existing auto finance clients in this quarter.

### **UK BFS**

On the UK BFS performance remains strong; however, the pace of growth is slower than last year due to a combination of lower volume across the industry given the challenging economic environment and some movement from on to offshore which I have earlier alluded to.

We have added new lines of work across our key relationships including expanding to collections as I mentioned a minute ago. Also, the trend of increasing usage of chat instead of calls service offshore continues nicely. Overall, we are pursuing several new ramp opportunities within our existing client set in UK for which we expect quick closure. These should further augment our growth in H2.

For BFS, in summary, our outlook remains steady. We are making good progress in diversifying into newer segments. We are already seeing success in auto-finance and we are now focused on expanding our DECX or the digital call center ops capabilities within the US bank segment.

### **Healthcare**

Our Healthcare segment remains steady. Year-on-year growth was flat in constant currency.

#### **Provider:**

As previously discussed, our provider business has been impacted by the Public Health Emergency (PHE) promulgated by the US government at the start of COVID. After nearly 40 months the PHE was finally lifted in May 2023. The headwinds from Medicaid auto re-enrollment etc., have now subsided and we expect these activities to pick up meaningfully. We expect growth in the business to emerge from H2 of this fiscal as different states and health systems start dealing with the new reimbursement environment.

Expanding offshore capabilities and the provider has been a key focus as we build adjacencies. We are pleased with the progress thus far. We have added one new client and one existing onshore client for offshore in this quarter and while we will scale gradually, it will help us create strong referenceable case studies to help accelerate the offshore growth within our existing client portfolio. In addition to this, our overall deal pipeline remains healthy and we are witnessing an increase in business activity. Beyond the new offshore clients, we have added two new clients this quarter.

#### **HPHS:**

In the HPHS segment, we continue to witness a slower than expected scale-up of volumes in our recent events. These delays coupled with the onshore-to-offshore movement in some of our processes are resulting in near term softness in the HPHS business. We strongly believe this is transitional and we are confident of getting growth back as we saw in the early parts of last year in this business.

To zoom out, our HPHS growth thesis is based on landing and expanding top 10 health plans, expanding our digital intake offering and building beta for the mid market. We continue to make excellent progress in penetrating and growing top 10 health plans. About 18 months ago, we talked about a digital intake win with a top five health plan in the US. We have since closed three additional engagements with this client and have a strong pipeline targeted to close for rest of this fiscal. The client rates us as a strategic partner and this account is now on track to become a top five account for the HPHS practice. This quarter we added a top 20 health plan to our roster with a significant digital intake win. This deal should add meaningful revenues once fully ramped up and more importantly a strong execution will pave the way for expansion and other functions for this client. The pipeline for digital intake is strong with four active opportunities in play with new and existing clients. The progress on the strategy, the YTD wins and the pipeline give us confidence for a strong growth for HPHS in H2.

Overall, for Healthcare to reiterate, we are focused on reversing the revenue decline in provider and growing our share of wallet across top 10 health plans in HPHS while strongly executing on the digital intake opportunity. We are confident in achieving both these goals.

#### **CMT**

This segment saw 7% Y-O-Y growth in constant currency. This is not withstanding the onshore to offshore movement in our top client relationship. As I mentioned earlier, we have extended the contract with the top client for 10 years. This is a great validation of the working relationship between us for the last 22 years now. Considering the strategic priorities of our client, we are actively balancing their delivery footprint across onshore and offshore to offer the most cost-effective solution to their needs.

Outside of the top client our growth traction remains strong. In a short span of time, we have made solid progress in scaling our EdTech practice. During COVID as we know the EdTech companies disrupted the way learning was consumed globally. We saw this as an opportunity to target these companies and help them build better learner experience. This is a white space opportunity. We are creating and delivering offerings that enable both traditional and new age EdTech companies to focus on providing greater learner experience to improve both stickiness and learning efficiency. We have designed journeys for end-to-end learning and have implemented tech solutions including GAI-based solutions to provide better access and experience. Our consultative approach has enabled us to win large annuity deals that are truly transformative and are referenceable case study for the largest CX Go-To-Market story. As we speak, we are finalizing a contract and commenced hiring for sophisticated operations for a strategic EdTech client. We estimate this will add between \$15-\$18 million in annual revenue and we expect to go live in Q3 and ramp up by Q4 of FY2024, latest by Q1 of FY2025.

### Guidance for FY2024

Finally, I would like to comment briefly on the guidance for FY2024. We remain confident in our revenue growth guidance of 2% to 5% for FY2024 with an operating margin range of 11% to 12%. This revenue guidance continues to include a headwind of about 3% from last year's base effect in the mortgage business and a headwind of 3.5% to 4% from the onshore offshore portfolio revamping.

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

**Dinesh Jain:**

Thank you Vipul and good morning, everyone. Here is a quick financial snapshot for the quarter gone by.

Revenue for Q1 FY2024 came in at INR 15,292 million in rupee terms and \$186 million. This implies a year-on-year growth of 3.9% in rupee terms and a decline of 1.6% in constant currency terms. On the margin front, operating margin came in at INR 1,789 million or 11.7% which is up 52.8% year-on-year. Profit after tax came in at INR 1,260 million or 8.2% of the revenue for the quarter, which is up by 48.1% year-on-year.

Vipul talked about the extension of the contract with a top client. It is a great outcome for our continued relationship with the client. With part of the business moving offshore, we should start to see margin expansion gradually as the transition completes. For this contract we will be making an investment of about GBP 15 million. Of this GBP 9.5 million we will be paying in this financial year and the balance will get paid in FY2025. The total contract acquisition cost will be amortized over the contract duration of 10 years.

Some other financial highlights, DSO came in at 63 days versus 60 days last quarter.

Net debt stands at INR 7,133 million as of June 30, 2023 versus INR 6,159 million as of March 31, 2023, increasing due to the higher working capital drawdown this quarter this also led to the higher interest payout for this quarter.

On the cash flow from operation in Q1 was lower due to annual bonus payouts, higher receivables and the first trench of the payment for contract acquisition costs, which we paid in this quarter. We expect this to be normalized by next quarter. Our cash balance including investment stood at INR 2,207 million at the end of the quarter.

Tax rate for the quarter was around 18.9%, which is within the guidance range of 18% to 20%.

On the forex front, we have coverage of £59.9 million for the next 12 months with average rate of INR 103.5 to the pound and coverage of \$72.5 million with average rate of INR 84.1. For next 12 to 24 months, we have coverage of £56.5 million with average rate of INR 106.7 to the pound and dollar coverage is around \$2.0 million with average rate of INR 84.3 and for more than 24 months, we have coverage of £46.4 million with average rate of INR 111.6 to the pound. In addition, we have also taken some of the option products to increase the better realization on these dates.



Let me also introduce Pankaj Kapoor who has joined us as a Head of Strategy and Investor Relations this quarter. He comes with over 25 years of experience across corporate and financial markets. Please join me in welcoming Pankaj and I know he is looking forward to getting to know all of you in the days ahead.

This is all from my side. We will now open for the Q&A.

**Moderate:** Thank you very much Sir! We will take that first question from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** First, a good quarter overall. First question is related to the extension of the contract. So one was on the margin front now that this is moving offshore how much impact or benefit do you think you should have while we do our calculations on margins on the overall deal in the context of the payment that you are making and,

A similar question but not related to numbers because you have already spent a lot of time with the top client how do you get to sort of sign such large deals, say 10 years or something in the current environment?

**Vipul Khanna:** The sky movement and as you said there is amount of payment that we are making as far as the investment in the deal. After amortizing for that over the deal term, starting from this year this deal will be margin accretive as well as EPS accretive, so it can be healthy margins getting added to the bottomline.

How do we sign such large deals? The percentage of what we do for them is a big chunk. This is a long-term relationship that has been built across the value chain and across product lines. It is a collection of four or five product lines that we cover. A lot of them are managed independently while there is governance at the top level and to that extent as they think of their long term plans they take long view so even this negotiation and the fact that we will do this offshore has taken us a while to kind of think about it, right it did not happen overnight, they tested for a few things gradually and we reached this point after several longish period of working through the details, so the strategic outlook they look at for the work that we do for them, I think that is what gives the runway and the confidence to take a long term view of the deal and given the fact that we have already worked for 22 years it gives the confidence that I can take a 7 to 10 years view of this deal. Even otherwise, right, the large strategic deals that we are signing as I guess most of the industries, we are looking at a five year plus extension sort of outlook. So, to that extent for large strategic deals, I would say this is not unusual.

**Mohit Jain:** In terms of revenue like we saw a slight drop in revenue in this quarter, so I am assuming that is on account of the offshore shift that you spoke about, now from going ahead standpoint is that shift more or less done, should we expect some more decline in the way from top client, where is it likely to stabilize?

**Vipul Khanna:** Your question on the revenue decline was overall or just for the top clients?

**Mohit Jain:** For the top clients because overall will come little later, but on the top client side because you are also talking about some shift towards software.

- Vipul Khanna:** That journey has started in Q1 that is big reason why we have seen a decline. There was obviously some softness in volumes as well as I mentioned the UK volumes or the UK economy is going through some softness, so both factors combined. However, I would also say that a big chunk of the onshore to offshore movement will come through in Q2 and Q3 and then kind of as per current plans restabilize. So, we expect the top client revenue to decline over those two quarters on top of what we saw in Q1.
- Mohit Jain:** Right and related question is like if we are looking for that decline which I assume will impact the telecom vertical, TMT vertical growth at the Company level and your guidance suggests sequential growth from here on BFSI you spoke about some softness in UK so which vertical are we really positive on here to deliver a company level growth of say 2% to 3%?
- Vipul Khanna:** We expect growth from this point onwards after breaking in this decline that I talked about. We expect good growth from our CMT segment, other parts of CMT, so for instance I talked about the large deal in EdTech that we have signed that will start to go live in October and slowly build up scheme for the rest of the year. HPHS will be a good growth driver given what we have signed and what is under implementation as well as coming up to closure there. So, these will be the two relatively chunky growth drivers and if you look at the other three businesses, collections, mortgage, and provider, the big businesses all of them have had varying levels of headwinds and sort of volatility up till now. That headwind I think for most of them are pretty much gone now. In fact, some element of tailwind building up for collection, we will see how the mortgage kind of builds out and then the big friction for provider, which was PHE, etc., has gone. I think we will expect steady growth in all these three segments. That is the kind of environment that we look at for us to kind of get confidence on sequential growth from this point onwards leading up to the guidance that we did.
- Mohit Jain:** Right and last is on margins. I am taking the upper end for convenience say we are close to 12% odd now as you mentioned business is stabilizing where do you think we can operate in a steady situation given that offshore shift is likely to increase for the Company because historically we have been in this range at the EBIT level for quite some time so do you think there is a chance that your margin structurally may go slightly higher versus what we have done in the past?
- Vipul Khanna:** For now we are keeping the 11% to 12% outlook. We have some investments also lined up given GAI and other things on the horizon that we need to kind of play with and kind of stay on top of. As I have been saying historically that outlook remains unchanged that once this year gets to a steady state we should start to see that 25-30 BPS improvement year-on-year that still remains the medium term goal and I think at this point, even with this offshore shift we will continue to look at sort of rebalancing the portfolio. I have been talking about growing other near shore locations, Philippines, Mexico City, South Africa that is our focus to continue to grow that portion of the portfolio but for now the margin outlook is of 11% to 12% and then from that point onwards improving by 25 to 30 BPS a year.
- Mohit Jain:** As a followup so the near shore locations you count in onshore when you report the percentages or is it counted as offshore?
- Vipul Khanna:** They are counted offshore.

**Mohit Jain:** Great Sir. Thank you and all the best.

**Moderator:** Thank you. We will take the next question from the line of Manik Taneja from Axis Capital. Please go ahead.

**Manik Taneja:** Thanks for the opportunity. Vipul, I had a couple of questions. Question number one was with regards to the consolidation that we have seen amongst the mega customer care companies in the course of last 12 months how do you think this impacts the landscape for midsized players like us?

The second question was with regards to the significant offshore shift that almost the entire customer care industries since we have been talking about over the course of now 12 to 15 months and we are seeing this change significantly?

How should we be thinking about our margin outlook given the fact that we should also be benefiting from such a significant swing in terms of offshore delivery? So, what is driving the status quo from our end?

**Vipul Khanna:** The big call center consolidation that we have seen or at least announced, is interesting as these guys are big volume industries like tech, retail, communications, energy, government as well and they run sort of global portfolio serving multilingual and I think that race to kind of be bigger and serve all geographies, all languages, that seems to be the primary driver. As opposed to that our primary focus is more niche, heavy domain focused call centers right, whether it is healthcare or mortgage, targeted parts of tech or EdTech the learner experience that we talked about and even for our CMT clients we work with a few, but we work across more sophisticated sort of client acquisition retention those kind of chains with the vanilla servicing. So I think we are talking slightly different markets there. Clearly, we do not operate at that level of scale or that level of multilingual capability. So to that extent I do not think or worry about the impact from those big mergers. In fact some of the conversations that we have had in the last few weeks with couple of clients is that the larger clients especially the mega clients, the TechOne, they kind of worry a little bit about the concentration risk such mergers present to them and to that extent there might be some opportunity for them to expand their portfolio of suppliers so that they are not exposed to a few very large providers, so we will see how that plays out from a concentration standpoint.

On the margin, I think clearly last year was an aberration, we had a massive revenue shock from mortgage and the collection is not kind of picking in that normally does. This year we come back to normal margins even with the move that we are talking about right, with a large client in a couple of smaller towns in healthcare and BFS. If you look at our onshore offshore mix it is still broadly 70:30. Our intent is to slowly and strategically move our clients as well as new deals with a heavy offshore tilt right that should help the margin as this movement starts and it starts to reflect on our results we will give you better guidance on sort of how we see that but please do keep in perspective it is still 70:30 onshore offshore while what you might be comparing with as very different portfolio mixes. Within that reality we do think we can eke out this 25-30 BPS every year for now from this 11% to 12% guidance.

**Manik Taneja:** Sure and just to provide you further on the margin outlook. From a segmental margin standpoint, we saw the big drop in terms of BFS margins through the course of FY2023 and have seen recovery over the course of last couple

of quarters should we see these segmental margins on the BFS side go back to the 17-18% levels over the course of next 12 months?

**Vipul Khanna:** I do not know when they will go up, but we will definitely continue to see improvement clearly as our mortgage volumes had dropped there was a significant impact on their margin given the scale. We made great progress in the last three quarters and we feel confident that over the next two quarters we will continue to eke out sort of more margins from mortgage. I think collection is in a good run especially with increase in share of digital and our diversification into banking is still relatively sort of young and nascent. Right now it is all about market share and landing accounts there. We will kind of deal with sort of margins once we have the critical mass there but overall, directionally we should see continued positive movement in the BFS margin.

**Manik Taneja:** Sure and the last bookkeeping question was with regards to our healthcare business if you could provide a split of the HPHS and healthcare provider business both for FY2023 as well as for Q1 FY2024?

**Vipul Khanna:** So this quarter we were at about 55:45, 55 HPHS, 45 provider and our full year number was kind of in the same ballpark, maybe sort of a percentage movement here or there for the full year as well as for this quarter.

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

**Moderate:** We will take the next question from the line of Dipesh from Emkay Global Financial Services. Please go ahead.

**Dipesh:** Thanks for the opportunity. A couple of questions, first about just want to get a sense about the new service offering which we I think are highlighting over last few quarters. So progress made on those things. First about trust and safety standard offering which is for content models and which we are highlighting for last couple of quarters and second is FinCrimes or financial crime operations if you can provide some sense about overall market size, how we want to play in these things and what kind of let us say three-year, five year kind of time horizon scalability of some of these offerings?

Second question is about the guidance asking rate if you can run through us what would be the asking CQGR based on 2 to 5 which we require for next three quarters and last question is about the finance cost, finance cost seems to have increased substantially quarter-on-quarter, so if you can give some sense what led to that increase and whether it is here to sustain things?

**Dinesh Jain:** Finance costs have two components one is normal on a borrowing the interest costs which we pay and the second is on accounting on leases because as you have facility or interest cost and the depreciation get split on the lease rental. So this year there is no material change in a finance cost purely on the borrowings there is a borrowing increase so there is a slight increase, interest rate still remains between around five percent for our borrowing so that has not significantly changed. I think larger component is as we are growing the offshore book we have a new center coming into and that plays when you do the capitalization of those centers, the interest component is higher in the initial few years and then it reduces. So I think that is the larger piece but we see that next quarter onward it will be normalized, it will not be at that high level hope that answers your question.

**Dipesh:** Just on the number of center, let us say where we report India center and those data, it is showing one reduction rather than one increase so from here what is our intent?

**Dinesh Jain:** There is a reduction and there is an increase. The previous old center which was in the process of going out that has gone, so net is the decrease but the overall we have added three centers in this quarter.

**Vipul Khanna:** On the new offerings, trust and safety is the big market, it has come up in the last 5-6 years, maybe a little bit longer. Varying estimates span about \$5 billion up until 2021 middle of 2022 it was growing strongly, north of around 20% obviously since the tech slowed down in H2 of last calendar and this year that growth rate has come down, but we still believe that the market is ready for maturity. It has done the first wave of offering right which was just pure content moderation, but now beyond the big platform companies we see the off take of trust and safety by a varied user and far more sophisticated and far more targeted new scales usage of customer safety from privacy to ads integrity and obviously even government starting to look at it from a from different angle that they look at it from a content standpoint. So we are still early in the game. We have come into a mature market, but we do think there is room. There is room to bring in a partner driven or tech powered solution there. We have had a couple of small but sort of symbolic wins and we are still building up our pipeline on this market so still very early, but it is a long game and as you said if you take a four or five year view the threshold generally rule of thumb that we use is that if we are starting a new practice in five years we should see like a \$50 million sort of outlook for that business.. That is from an aspiration standpoint but we are still early in this game and this year is a year when the TNS market itself is kind of relatively flat as most tech companies have recalibrated their stuff. I think this year will be a year when existing players will be aggressive, deal making will be more price driven and we will see sort of how much we want to play and how the rest want to play out there.

Fin crime starting with banks and then potentially going to more these fin tech oriented payment product that is the market which has grown really rapidly in the last two years earlier from an AML KYC and now increasingly from an online payment and a fraud standpoint. Our mainstay there today is an extension of our DECX offering where from our call center experience we are getting into more fraud oriented, more specialized calls there. We have had great success in UK where we work with four of the top banks and that offering is what we are now as we kind of start to enter the US banking market beyond mortgage and collections. This is one of the more mature offerings that we are taking up and building the pipeline interest in that market. I do not have very good estimates from different areas, but from what I what have seen the estimates for this market also range from between \$2 to \$4 billion and there are a variety of ways in which customers are doing some very heavy system plus kind of offering, right X plus offering to more scale or more operational offerings where we are trying to play from a call center which is identifying, solving, and even servicing sort of those related calls and then working our way back onwards into the left side of the process. And then I already offered comments that EdTech that we have been allotted for the last 12 to 18 months, we have had very good wins and I think this large deal that we just announced kind of validates the thinking that we have had of entering this segment and now we have a pretty healthy portfolio, now some meaningful revenues as well to play with and take the next level of sort of GTM focus for this particular market.

As far as rest of the year goes, we do expect sequential growth. We expect that Q2 will be relatively modest growth given the higher impact of the onshore to offshore and from there on the growth will accelerate into Q3 and Q4. That is how we currently modeled to kind of get to our guideline that we have.

**Dipesh:** Understand. Just one question about this EdTech deal. Now if I look at known top client exposure to CMT it seems to be almost one third of the revenue coming from this single client kind of thing once it starts getting reinforced so what is the mix in this unknown sky if you can provide some sense EdTech obviously whether it is fairly concentrated it seems so far, but if you can give some colour which area we are and how we expect some of those segments to grow for us? Thanks.

**Vipul Khanna:** So, you are saying within CMT what is the share of top clients and then what are the other growth coming out?

**Dipesh:** The top client is obviously we report so we can calculate for the remaining 3% business how it is divided?

**Vipul Khanna:** The remaining CMT we have growing say more closer to one fourth sort of US portfolio that we have built up on that this is without the EdTech sort of a new growth that I talked about. Within that there is a decent concentration of clients on the US side. UK obviously is the big one and a few small ones. EdTech once it builds up by Q4 I think we will be in a better position to tell you in the overall CMT scheme of things where it will land, but I think we need to think a little about this before I give you the answer. I can give you more directional answers, if you want to double check on any of that on the CMT side.

**Dipesh:** Maybe we can take it later. Thank you.

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

**Shradha:** Hi Vipul congrats on good execution. Couple of questions first is on the decline in the collection of business that we saw so can you quantify what was the extent of decline because we understand that Q4 is essentially a strong quarter from that case what was the kind of decline that we saw in Q1?

**Vipul Khanna:** Q4 is a seasonally high quarter for tax, this fourth quarter was not as high seasonality as we saw in the past, but there was still an impact from seasonality. Legal collection is still taking its time to build up there is not a decline, but legal collection from where it was in Q4 to Q1 it was relatively flat; however, early stage collections barring the impact of seasonality was solid right. The new wins as well as the volume from big clients held steady so if I take out the seasonality impact we are happy with sort of where the core or the early stage collections land in.

**Shradha:** Would it be possible for you to quantify the revenue for both the quarters in collections for that Q4 and Q1?

**Vipul Khanna:** We are starting to give more vertical level from this quarter or this year onwards. We are trying to focus on BFS, healthcare, and CMT and kind of give you at that level, but happy to give you more qualitative comments if it helps.

**Shradha:** Sure, another thing is this extension of relationship with the top client for another 10 years so does it come with any increase in commitment of annual budget from this account and is it more because they are shifting from in-

house to outsourcing or is it more as a result of volatile share gains from some other vendor that they have been working with?

**Vipul Khanna:**

They are a giant corporation in multiple businesses. At this stage where we have started off is that there is no capacity reduction. It is the same capacity despite the movement that will run. Now obviously it is a very dynamic portfolio across product lines and across the lifecycle from acquisition to service to retention to even collections in some cases, right. So in that life cycle number of variables keeps changing from a strategic direction of how they run the business obviously they are also into a cost efficient environment. As we have moved they have also done some re-tooling of their core portfolio themselves. At this stage we continue to expect incremental growth opportunities as we have seen in the past two years. Some programs come in as volume drop off or as campaigns get over some volumes go away. We are fully in the table with them on every set of their annual as well as what is their strategic plan. There is no thematic at this point to say it will go up or down. It will be constant and incremental growth opportunities will come as their priorities kind of change and they adapt to it. That is where we understood each other's business requirements and we will play with it.

**Shradha:**

Okay just last question. I know it is too early to call out the impact of generative AI but a larger BPO company has called out they expect a 20% cannibalization impact over the next three years so how do we see net-to-net GAI impact on our business?

**Vipul Khanna:**

Look it is very topical. We do not spend a day these days without talking about GAI and all of us are experimenting at home and all of us are experimenting in businesses, right from trip planning to how to make dishes to sort of how to respond to chat. I think personally it is very early, market is still in the phase of testing out different things of taking the technology and bringing into the enterprise world. All of us are testing our pilots and those pilots give us a point of view to say if I take hundred people to do this chat and never put GAI I could do is 80. Yes, we could get to those pilot level sort of estimates of productivity or human either effectiveness or reduction, but to extrapolate it across the portfolio, I think that is a fallacy that we saw during the time of RPA launch as well like eight years ago. Everybody thought if we can get 30% in one process you could get 30% across the entire operational state, but that never happens. So I am very circumspect giving that sort of estimate but at this stage everybody wants to experiment. New specialized partners are emerging every day who are bringing LLM specific to an industry, mortgage as opposed to collections as opposed to healthcare in the rim of the regulation requirement of each industry. So right now the focus is to test it out, see how it works and then see how much material you can implement and how much you can squeeze out. Also keep in mind demand keeps changing as well, the GAI and our patterns as consumers will also change so there is a demand side and there is a supply side affecting this. Between the two I kind of hesitate to make a long term prediction yet.

**Shradha:**

I got it and just if I can squeeze in one last question. In the healthcare segment we reported a 4% decline so is it more to do with HPHS or did we see some weakness even in the provider segment?

**Vipul Khanna:**

Provider was very seasonal. There were one or two programmes which we knew will come to an end. There was some decline from there but thematically as I said provider seems set for sort of steady growth as market activities pick up and as more deals happen or pick up. HPHS had more decline again partly some because of one or two

accounts that were coming to the end of their implementation phase, especially the BPAS account that we had and then there were some minor volumes corrections in one of the account, but it was more where we expected growth to come in faster it is kind of running behind from a deal closure that is kind of impacting it more, but yes more index to HPHS than provider for this quarter.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you!

**Vipul Khanna:** Well thank you everyone for your engagement, for your great questions and your continued support. We look forward to coming back and reporting Q2 to you in a few months' time. Thank you again and have a great day ahead.

**Moderator:** Thank you very much Sir. On behalf of Firstsource Solutions Limited that concludes this conference. We thank you for joining us. You may now disconnect your lines.