9th November 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 8th November 2023

Please find enclosed the transcripts of the Analysts earnings call conducted on 8th November 2023 for the meeting of Board of Directors held on 8th November 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 SURESH NAMBIAR Digitally signed by POOJA SURESH NAMBIAR

Pooja Nambiar
Company Secretary

"FIRSTSOURCE SOLUTIONS LIMITED Q2FY24 EARNINGS CONFERENCE CALL"

NOVEMBER 08, 2023

MANAGEMENT:

MR. RITESH IDNANI,
MD & CEO

MR. DINESH JAIN
CFO

MR. PANKAJ KAPOOR
HEAD STRATEGY AND IR

Moderator: Ladies and gentlemen, good day, and welcome to the Firstsource Solutions Limited Q2FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

On this call, we have Mr. Ritesh Idnani, MD and CEO, Mr. Dinesh Jain, CFO and Mr. Pankaj Kapoor, Head of Strategy and Investor Relations to provide an overview on company's performance followed by Q&A.

Please note that some of the matters that we will discuss on this call, including company's business outlook are forward-looking and, as such, are objects known and unknown risks. These uncertainties and risks are included, but not limited to what company has mentioned in its prospectus filed with SEBI and subsequent annual reports that are available on its website.

I now hand the conference over to Mr. Ritesh Idnani. Thank you, and over to you, sir.

Ritesh Idnani: Thank you, and hello, everybody. Thank you for taking the time to join us today to discuss our financial results for the second quarter of FY24.

As we all know, it's been a little over 2 months since I joined Firstsource. As such, I'd like to use this opportunity to share my observations about Firstsource, my strategic priorities and my roadmap to scale our business, besides discussing our quarterly performance. These prepared remarks will take a little longer than usual.

Let's start with the macro context.

Over the past 8 weeks, I visited our key locations in India, the US and the UK, covering more than 80% of our workforce physically. I've also had the opportunity to meet more than half of our top clients across industry segments as well as had the opportunity to join the 20-year anniversary celebration of our relationship with one of the top 5 banks in the UK. These interactions have given me great insights into our operations as well as our customer relationships. For me, four things stand out.

Firstly, our customers absolutely love the way we go beyond the call of duty and truly partner with them in solving their business problems. It's not just one or the other, but each one of the customers I met who echoed the same sentiment and appreciation of the deep understanding we have of their operating environment and the value we are able to offer to them. I'm particularly amazed by the seniority, depth and duration of our relationships with our clients, some of whom are among the largest players in their respective verticals and are household brands globally.

Secondly, we are the market leaders in several of our focused domains. For example, our collections business is a global market leader with end-to-end capabilities - from first-party collections to legal collections - all delivered with a strong technology platform cutting across all industries.

In customer experience, which is a key component of our portfolio, we have been able to fuse technology and operations to successfully deliver significant outcomes for our customers. This was recently recognized by Everest who rated us as a market leader in CX for the work we do in the space in Europe. Likewise, we are clearly among the top players in the mortgage industry and if anything, our recent conversations, and opportunities that are testimony to that along with recognition by industry animals. We've also made significant breakthroughs in the Healthcare payer space, despite it being a fragmented and mature market and have created superior members and provider experiences. Our solutions across the payer value chain have won accolades including recent recognition by analysts such as ISG and Everest, who have ranked us as leaders in the space. We've also had good success at incubating new industry verticals such as edtech and media in the last few years with the consulting-first approach, which has allowed us to build a strong capability impacting the learner and subscriber experience, respectively.

Thirdly, as strong as our existing relationships are, we are still underpenetrated even in several of our large accounts, both in terms of our wallet share in the services we do for them currently as well as in terms of the opportunities we have to expand our portfolio in these accounts. I believe these represent significant white spaces of growth for us.

And lastly and most importantly, I am deeply impressed by the passion and commitment of our workforce, and I truly believe that is our superpower. We believe that these differentiators auger well for us in the current environment.

Today, macro shifts are putting pressure on enterprises to move from a growth playbook to a growth and efficiency playbook. Concurrently, accelerated development in generative AI and applied AI hold tremendous potential for transformative business impact. We believe that the discontinuities caused by these shifts are likely to create market opportunities and my focus is to use our strong foundation to take advantage of these opportunities. Towards this, I've defined a common theme of "One Firstsource" across all our business lines, service lines and geographic footprint. The "One Firstsource" theme has 7 strategic imperatives. Let me talk briefly about each one of them.

First. Simplify the organization.

We are streamlining the organization structure to remove overlaps, establish clear accountability and ensure faster decision making. We're also working towards centralizing - or decentralizing, as the case may be - enabling functions and identifying the right shore for role placements.

Our refined organization design will have North America realigned along three industry verticals - Banking and Financial Services; Healthcare; and Communications, Media & Technology and Others, while Europe will remain a geographical business unit. We are also aligning our services portfolio into five capability areas that include our mature service lines, such as collections and customer experience as well as emerging and fast-growing service lines such as consulting, trust and safety and data and analytics.

Second. Cross-sell/upsell into existing accounts.

We are setting up dedicated teams for a defined set of accounts where we see significant headroom for growth. Each team will have an identified client partner with clear ownership to identify white spaces, develop a structured account plan, take proactive proposals to clients and work with them to develop a pipeline of large transformational opportunities.

Third. Expand capabilities.

We are focused on building adjacencies across our services portfolio to maximize our wallet share. Our expanded set of horizontal practices and a refreshed account management plan I highlighted earlier, would be key enablers of this initiative. We would be investing in scaling our consulting practice to act as a tip of the spear in increasing the size of our sales funnel. We're also actively strengthening our footprint in Eastern Europe, South Africa and Latin America for nearshore delivery capabilities.

Fourth. Amplify the Firstsource brand.

We are doubling our efforts to strengthen our relationships with industry analysts and advisors. We are also putting increased focus on driving thought leadership in the domains and capabilities we excel in. While we've always been doing this, I intend to reinforce and double down to ensure consistent and more amplified messaging in the marketplace.

Fifth. Technology in everything we do.

We are institutionalizing the process of evaluating how we can leverage technology in every aspect of our business, whether it's customer-facing or for internal functions. This includes building technology-led propositions to disrupt incumbents in our target set of accounts as well as infusing our existing frameworks and platforms with the latest technologies to improve their relevance and attractiveness in the marketplace. We will also actively expand our partner ecosystem and intend to bring them into the fold in everything we do to improve our catchment of opportunities in the market.

Sixth. Elevate employee experience.

We want to make Firstsource a great place to work for our employees and be an employer of choice in all the markets and regions we operate in. We are working to ensure best-in-class experience for our new joiners, do a skill refresh across levels and functions, reduce attrition as well as expand our leadership training and development programs.

And Seventh. Improving profitability.

Even as we invest across the initiatives I outlined earlier to improve and expand both our sales footprint and execution capabilities, we are going to have a laser focus on expanding our profit margins. We've identified multiple levers to work on. We have been working on right shoring our delivery model this year, which is evident in the 2 percentage point increase in the offshore share in H1 of FY24. This can only improve further. I also see scope for operating leverage in our execution model.

In summary, I believe that the discontinuity caused by the macro and technology shifts are opening up opportunities, which Firstsource is very well positioned to take advantage of. Our market leadership in several of our chosen domains and the quality of our client portfolio give us a solid foundation. The "One Firstsource" framework is aimed at leveraging that to drive top-quartile revenue growth with concurrent improvement in margins over the medium term.

I will now shift to the **key highlights of our Q2 performance**.

Let me start with the financial performance first. Our revenues grew by 3.5% year-on-year and came in at INR15.4 billion. In US dollar terms, it was broadly stable, both on the year-on-year and quarter-on-quarter basis at USD186 million versus a year-on-year decline of 2.6% we reported in Q1. In constant currency, revenues were down 2% year-on-year, but flat sequentially, in line with our earlier assessment.

EBIT margins adjusted for one-off items, was also largely stable quarter-on-quarter at 11.2% and was higher by about 3 percentage points versus Q2 of last year.

Our net profit was INR1.3 billion and our diluted EPS was INR1.8 for the quarter.

Let's move to the deal wins.

We continue to participate actively in both the cost optimization as well as the process transformation and revenue growth agendas of our clients. We are also actively hunting for sole-sourced opportunities both in our existing portfolio of clients as well as a new set of logos. The success of our strategy is evident in our deal wins in Q2, which was the highest in the last 4 quarters and the second highest in the last 3 years. Let me highlight a few notable ones.

- We were selected by Education Testing Services, one of the largest education testing and assessment organizations in the world, to provide student support and technology services. As part of the deal, we recently launched a state-of-the-art global capability centre to deliver a cross-section of services.
- Firstsource also expanded its offshore footprint for one of Europe's large and leading media and entertainment companies by adding new complex service.
- We were also chosen by one of the leading reverse mortgage companies in the US to deliver a full suite of operations and technology services.
- We further strengthened the multi-decade relationship with one of the largest managed Healthcare and insurance companies in the US with additional business for providing digital intake and customer engagement services.
- We also won additional business from one of the largest telecom and cable companies globally to provide core customer support as well as automation and AI.
- I would also like to highlight that we recently celebrated the remarkable milestone of 20 years of partnership with one of our large banking clients based in the UK. To me, this underscores the importance of the relationships we have built and the value Firstsource delivers to its clients.

We and our clients continue to navigate an uncertain macro environment. In this backdrop, we stay focused on creating value for our clients and remaining disciplined on execution. Concurrently, we continue to work on scaling new subsegments in our chosen set of focus verticals and selectively expanding our operations and offerings to adjacent verticals.

Let me now provide you a deep dive into our Q2 performance and outlook for each one of our industry verticals. **Let's start with Banking and Financial Services**.

In Q2FY24, our Banking and Financial Services vertical was down 7% year-on-year in constant currency terms, primarily due to the mortgage base effect; revenues were broadly stable on a sequential basis.

As you know, this vertical for us comprises 4 broad sub-segments - the work we do in mortgage, collections, customer experience and some of the emerging capabilities that we have in risk, fraud and compliance. Let me give you a color on each of these subsegments.

Mortgage.

- Our mortgage business was down year-on-year due to the base effect, but it was broadly stable quarter-on-quarter.
- We believe that interest rates will continue to remain elevated in the US based on recent commentary from the Fed.
- However, I had a chance to attend the latest conference organized by the Mortgage Bankers Association in Philadelphia last month. My interactions with various participants in the event suggest significant opportunities to partner with mortgage players as they look to do cost takeouts to remain competitive and relevant. We see opportunities to partner with them in helping them evaluate their target operating model using technology to transform the way they run their current operations and reposition themselves for the future. We are also continuing to proactively increase our footprint both from a market segmentation standpoint beyond monoliners to mid-tier and regional banks as well as expanding our service portfolio into servicing and HELOC. During the quarter, we also made significant strides in our efforts with new segments, including reverse markets, builders and the fintech vertical.

Collections.

- Our collections business continued to grow at a steady pace in Q2 driven by new logo acquisition as well as growth in existing accounts.
- Our focus here is to increase our footprint with our digital collections platform as well as expand into other industry verticals beyond financial services.
- We added 5 new clients in this segment in the financial services space and see a strong deal pipeline. During Q2, we also expanded execution capacities in Mexico and started servicing 2 collections clients from there.
- We also made an entry into one of the largest Nordic banks that we will be working with the collections business in the UK.

Customer experience.

- Firstsource is one of the largest CX service providers in the Banking and Financial Services vertical, leveraging its healthy mix of locations for voice as well as digital capabilities to drive efficiencies and deliver business outcomes.
- We're seeing an excellent demand from banks that are diversifying their overall retail banking and commercial banking portfolio with market improvements. Demand is also getting diversified towards offshore and nearshore given the continuation of cost challenges prevalent in both the US and the UK. We are seeing a strong business pipeline across large banks in the CX landscape.

Emerging segments.

- We are making good progress to broad base our portfolio in the BFS vertical. We've seen success with auto finance; we continue to strengthen our capabilities in risk and compliance. And we formed a bunch of partnerships in this space, either on the Gen AI side or with leaders in areas like credit data services to power digital verification. Overall, we continue to expect modest growth in this vertical in the second half of FY24 over H1FY24.

Healthcare vertical.

In Q2 FY24, our Healthcare vertical was down 5% year-on-year in constant currency terms, primarily due to the base effects in the provider segment; Revenues grew by 1% sequentially.

Provider.

- Revenues in this segment were down both on a year-on-year and quarter-on-quarter basis.
- As we've been highlighting, volumes in this segment were affected by the Public Health Emergency (PHE) enforced by the US government over the last couple of years. The PHE was lifted in May 2023, and the headwinds from Medicaid auto-enrollment have now subsided and deal activity has started to pick up. In the wake of that, we had 2 key wins in Q2. However, the volume buildup is likely to be gradual as systems transition to a regular renewal cycle.
- Meanwhile, Hospitals continue to operate with wafer-thin margins, and they are preparing for normalization and funding post-PHE by exploring options for cost restructuring. We've seen an uptick in the number of discussions with clients to offshore and digitize their revenue cycle operations. We've had numerous wins in this space, and we are currently in conversation with several clients in the revenue cycle space. The current wave of technology-enabled disruption is providing us an opportunity to take share from the traditional revenue cycle players who have largely built a people-based business.

Payer.

- Revenues on the payer side were down on a year-on-year basis, but at healthy growth sequentially.
- While the macroeconomic environment has been relatively stable for health plans, they continue to explore more opportunities for cost optimization and acquisition to drive member expansion. We are seeing opportunities to partner with them to provide disruptive propositions to help them be more competitive and relevant to their member base across the entire value chain, whether it be enrolment, claims, billing, etc. We're also seeing benefits on the vendor consolidation side based on our relationship and depth in some of these with accounts itself.
- We had good deal wins in Q2 from both existing accounts and new logos, and our strategy to focus on key accounts is playing well. We expect ramp-ups in these deals, which should translate to a healthy revenue growth in H2FY24.
- We continue to also grow our BPaaS offerings with joint go-to-market with some of the leading technology product companies in the space. Overall, we expect good growth momentum in health care in the coming quarters, largely driven by the payer segment.

Communications, Media and Technology vertical.

Our CMT vertical was flat year-on-year, but down 3% quarter-on-quarter in constant currency terms in Q2 due to the onshore to offshore transition underway in our top client.

Outside of the top client, our growth traction remains strong. In a short period, we have made solid progress in scaling our edtech practice. I'd earlier mentioned one of our largest deal wins with ETS. This deal went live in Q2 and continues to ramp up through the second half of this fiscal year. We are advanced conversations with several major edtech providers who are finding our solutions to be differentiated in improving the learner experience.

We also are supporting major consumer tech companies in training their AI for their product portfolio, leveraging our AI Ops framework.

Overall, we expect onshore to offshore movement to impact revenue in our top line in Q3 and to a lesser extent in Q4. However, ramp-ups in recent deal wins should drive the overall revenue growth in this vertical in H2.

And finally, to our **Diverse portfolio** which is largely our utilities segment.

This grew almost 2x year-on-year and 10% quarter-on-quarter. We are experiencing strong demand in the energy market and expect it to continue to have meaningful growth in H2.

Geographies

In terms of geographies, the U.S. was down 2.3% year-on-year in constant currency terms due to the base effect of the mortgage business, while Europe was up 4.1%. Sequentially, the U.S. grew 2.9% quarter-on-quarter, while Europe was down 5% quarter-on-quarter, mainly due to the impact of the on-site to offshore shift in our top client.

We do expect growth momentum in the U.S. to continue, helped by ramp-ups in recently won deals as well as a steady recovery in our mortgage business. In Europe, we continue to ramp up our sales team to have dedicated focus on client acquisition as well as continuing to grow our existing relationships itself.

Operations

Let me provide you some color on the people and facilities front. Coming to our people, we added a total of 1,569 new colleagues in Q2, bringing our total employee base to 23,953 employees at the end of September 2023. This addition was across geographies and is indicative of the strength of our executable order book. The trailing 12-month attrition for the quarter came in at 39.8% compared to 41.7% in Q1 and 48.1% in Q2 of last fiscal. We expect these metrics to continue to moderate over the second half of fiscal 24, which is helped by improved outcomes of our employee value-related interventions.

GenerativeAI

During the quarter, we launched FirstSense.AI, our proprietary framework to accelerate clients' AI deployments. We've also developed a sandbox ecosystem called FirstSense.AI studio for clients to experiment and evaluate AI frameworks. We currently have a library of more than 100 use cases cutting across industry verticals. We've completed more than 25 POCs and several of these have advanced to production pilots.

To call out some examples of Gen AI capabilities that we are leveraging. We are using e-mail automation, after call summarization, quality automation as well as copilots for Healthcare claims processing and mortgage underwriting.

Awards/recognitions

I'm also happy to share that Firstsource was positively recognized by leading analysts for bringing significant value to clients and offering innovative tech solutions. To mention a few; we were named as a 'Major

Contender' and a 'Start Performer' in the Everest Group's Banking Operations Speak Assessment 2023. The assessment called out our capability to deliver end-to-end solutions covering the full spectrum from the front end to the back end, our comprehensive portfolio, our global presence and our well-balanced shoring mix. ISG positioned us as a Leader in the 2023 Provider Lens™ Customer Experience Services report for a powerful, advanced AI-driven platforms and solutions with significant multiple vertical-specific expertise and effective delivery, in addition to our Digital First, Digital Now approach that's helping organizations to reinvent operations. Everest has also ranked Firstsource as a 'Leader' and a 'Star Performer' in the Healthcare Payer Operations, PEAK Matrix Assessment 2023 and a 'Major Contender' on Everest Group's Revenue Cycle Management (RCM) operations, PEAK Matrix Assessment 2023.

I'm also pleased to share that we released our ESG report and data book for 2023 during the quarter.

Finally, from a **guidance and outlook** standpoint.

In summary, we are satisfied with our performance in Q2 FY24. I am confident of our healthy order book during the quarter and a good deal pipeline that sets us well to accelerate our growth momentum sequentially over Q3 and Q4 and beyond. The uncertain macro environment does continue to remain an overhang on overall business volumes. As such, we now expect our constant currency revenue growth in fiscal 24 to be between 0% to 2% and our normalized EBIT margin to be in the 11% to 11.5% range.

Now, I'll turn over the call to Dinesh to give you a detailed color on the quarterly financials and related matters.

Dinesh Jain: Thank you, Ritesh, and hi, everyone. Let me walk you through the financial details of the quarter. Revenue for Q2FY24 came in at INR15,400 million or $186 million. This implies a year-on-year growth of 3.5% in rupee term and decline of 1.9% in constant currency term.

We reported operating profit of INR1,634 million, up 30.3% over Q2FY23 and translate to EBIT margin of 10.6%. This includes a few onetime charges related to leadership changes we had during the quarter. Adjusted for this, our EBIT margin in Q2 was 11.2%.

Profit after tax came in at INR1,265 million or 8.2% of the revenue for the quarter, down 2% on a year-on-year basis. For half year FY24 revenue was INR30,692 million or $372 million. This implies a year-on-year growth of 3.7% in rupee term and a decline of 1.8% in constant currency term.

We reported operating profit of INR3,424 million or 41% over H1FY23 and translate to EBIT margin of 11.2%. Adjusted for the onetime charges, our EBIT margin in H1 was 11.5%. Profit after tax was INR2,525 million or up 17.7% on year-on-year basis.

Coming to the other financial highlights. Tax rate for the quarter was 18% at the lower end of our guided range of 18% to 20%. Our cash balance, including investments, stood at INR2,172 million at the end of the quarter. Net debt extended INR6,653 million as of September 30, 2023, versus INR7,133 million as of June 30, 23, which imply a reduction of INR480 million during the quarter.

DSO came in at 66 days versus 63 days in Q1, mainly due to delay in some of the collections, which was subsequently collected in October. Overall, our cash flow from operation improved sequentially in Q2.

Our capex during the quarter was INR145 million, broadly similar to INR151 million in the Q1. As we prepare the execution capacity to fulfil the recent order wins, this expense rate continues to be in the same range.

Our hedge book as of September 30 was as follows: we had a coverage of GBP 59.8 million for the next 12 months with an average rate of INR104 to the pound and coverage of $96.5 million with an average rate of INR84.2 to dollar.

I would also like to mention that we had rolled out our annual compensation hikes and promotion during the current quarter. We also have the residual impact of certain charges related to leadership transition. These two will have an impact in our Q3 margin. However, we are confident of keeping them in the range of 11% to 11.5% on a normalized basis, as I think Ritesh also highlighted. This is all from my side. We can now open the floor for questions. Operator, over to you.

Moderator: The first question comes from Manik Taneja with Axis Capital.

Manik Taneja: Ritesh, congratulations for the new assignment. I just wanted to get your thoughts on a couple of things. First of all is a bookkeeping question with regards to segmental margins across the industry. Is there any one-off regards to the Healthcare segmental margins in the current quarter? That's question number one.

The second question was with regards to the point that you made around significant right shoring of business. If I look at the overall portfolio, the offshore on-site revenue mix has been between 25 to 75 or in that deal for almost last 10, 12 years. Do you think this moves in a very significant manner going forward? And would that be driven by just offshoring of the existing business or by virtue of expansion of service side?

Dinesh Jain: I think on your margin or accounting question, I think there are a few one-offs in the Healthcare side of it. One is that as we are seeing a new customer growth, so there is a ramp-up cost, which we had in this quarter. We have one account where we need to make a small provision for bad debt. So I think those are the two -- one is a one-off, one is not a one-off, but in the regular course of work - so that has impacted the margin for the quarter.

Manik Taneja: So would it be possible to call that out, the impact?

Dinesh Jain: It's not that high. I think margin is slightly lower, but I don't want to really put the number, but there is a one-off.

Ritesh Idnani: And let me address the question that you asked, Manik, on the onshore to offshore mix itself. I think the comment you made is a valid one. But at the same time, while we've been focusing on it for some time, and what you will see in the recent past is we've had a positive move in terms of just increasing the mix by a couple of percentage points. I still see opportunities for improvement there. But you're also right, it's not going to come just on account of moving existing work to offshore, but also in terms of new business that comes, which will also move offshore as well.

One of the things to bear in mind in the world we live in is this is not going to be just about labor arbitrage, but also technology arbitrage that I think is going to come into play with how we're able to render services to our customers. And I think that's something that's going to be very critical.

Number two is several of our customers continue to appreciate the fact that they're able to offer that blended delivery model itself. So on one hand, we are looking at right-shoring resources wherever relevant and optimizing our current delivery infrastructure. But at the same time, one of the things that also creates differentiation for us in the marketplace is the fact that we have a blended delivery model. So in summary, we do expect runway and improvement in the onshore-offshore mix, but at the same time, it's going to come also from expansion of our existing business and adding new business.

Manik Taneja: Sure. And one last question before I get back to the queue. Your comments with regards to expecting good traction in Healthcare in second half led by payers, is that largely a function of the typical seasonality of the Healthcare payer business because of the open enrolment season?

Ritesh Idnani: Well, I think it's coming on a few different accounts, right? So one of the things that I think is gaining traction and currency for us in the payer segment is the fact that, a, we work with a lot of great logos in those accounts itself, right? So we have a good existing client mix that's there as well as a very solid pipeline in terms of new logos that we are going after where we have a seat at the table.

What we are seeing in several of these existing accounts is we might be there in one or two of the functional areas and there's an opportunity to extend and expand our footprint, gain more share of wallet, be able to integrate what we do, particularly on the back of the digital intake platform that we have, which allows us to have end-to-end capabilities across, as an example, maybe digital intake and these are some of the capability sets that create competitive differentiation for us in the marketplace. Clients are very receptive to that in the payer space. They are looking to optimize the way they run their business, and this creates opportunity for us to be a value-added partner to them. So the ability to combine technology and operations in a meaningful way, drive transformation in that portfolio and deliver an outcome, I think, creates opportunities for us to be beneficiaries of the kind of pipeline we're seeing in the payer segment.

Moderator: The next question comes from Nikhil Chaudhary with Nuvama.

Nikhil Chaudhary: Congratulations on new role. My first question is regarding Ritesh, it's been almost two years since we have growth even in terms of your commentary for the business segment, mortgage business continued to face challenges and expect it to remain -- or at least delivery moderate growth only. we are not seeing rebound despite of increase in delinquencies. While in CMT, we are -- at least due to top client basically moving to -- towards higher offshoring, revenue growth is getting impacted. So just want to understand, given you must be working on strategy win, maybe it's a bit early, but what's the road map to take revenue growth, let's say, from low single digit to high single digit first and then ultimately to double digit? Any thinking, any road map you have?

Ritesh Idnani: So thank you for that question, Nikhil. As I elaborated in my opening comment, the one Firstsource theme is what we are looking to drive across the organization, and it has seven broad themes itself, right? The primary objective of everything that we achieved through the one Firstsource theme will allow us to get top quartile revenue growth, concurrent with an improvement in margins itself. And what we shared today is my thought process in terms of how we see the current landscape and also how I'm trying to reposition ourselves to leverage on the foundation that we have our existing strength.

We work with several household brands, as I talked about, in the domains in which we have as well as my prior experiences in scaling businesses is profitably itself. Our intention there is to drive the top quarter revenue growth itself. And what I'm hopeful of is, as we get into the next two quarters going into the end of the fiscal year, we can continue to give you a more detailed picture of how this is developing itself. But one of the first things that we are seeing already is a significant amount of activity -- deal activity, you can also see that in terms of the best quarter of deal wins that we've had in the last four quarters. And as we speak, they are in various stages of ramp. You can also see this in the net headcount addition numbers as well as our facilities built out. And we expect to see this in the next two quarters and beyond. But what I'm also trying to ensure is, we are able to maintain this on a secular basis. And that's one of the key priorities as well from my perspective.

Nikhil Chaudhary: Sure, Ritesh. My second question is regarding your comment on Gen AI that disruption due to Gen AI is creating opportunity for you and you are training some AIOp offerings, right? Can you please give more color, maybe quantify if possible?

Ritesh Idnani: Absolutely. So let me address this from a wider context of the BPO industry as a whole. Most enterprises today are still early in their adoption cycle. And in fact, most of our clients were caught flat-footed with the pace of advances in the AI field itself. And as you know, every enterprise client today has been asked by their Board about what their AI strategy is?

They are currently engaging with technology products services companies for advice and guidance and most of the efforts today are actually on using the time to focus on data quality to ensure that the AI can add maximum value and experimenting with POCs to figure out how they can best leverage Gen AI within their organizations. We've realize that the cost to compute and the cost to infer is still substantial and hence, several enterprises are struggling to make business cases stack up, and which is why they're going with this fast experimentation cycle, which we are also engaged with. As I mentioned, we've got an inventory of more than 100-plus use cases, we're working across several POCs, which are moving towards pilots and so on and so forth.

Secondly, I expect this to also lead enterprises to get more selective and where they want to invest in proprietary large language models and also where it may be economical to outsource. If you take an area like customer service, as an example, today, only 27% of the market is actually outsourced.

So there's a tremendous opportunity for players like us to continue to, a) take share of wallet from large players, but, b) also as the overall market expands, and this is where a lot of customers are currently in active dialogue, so say can they increase the percentage of work that's outsourced offshore leveraging technology itself and Gen AI adoption in some sense, could lead a significant expansion of the share where enterprises will increase the amount of work that they have outsourced. We are already seeing green shoots on this front. My personal take is that I believe that companies such as Firstsource are ideally positioned to be a net gainer from this trend, given our right size were neither too big to suffer from incumbency disadvantage not too small to lack domain experience and a roster of quality clients with a sizable wallet, but where we continue to have headroom for growth.

And finally, I also expect Gen AI adoption to open up new market opportunities and new revenue streams. For example, we have the opportunity to partner with technology companies who are developing domain or function-specific LLMs. Given our deep domain and data knowledge, we're actually doing a lot of work already on the data infrastructure side, whether it's around data annotation, data labeling with several leading consumer tech companies. And this is an opportunity which will continue to grow as enterprises prepare the data to be relevant for use and maximizing the outcomes with AI itself.

We're also seeing the emergence of new services around AIOps, and that's gaining significant currency and traction in the marketplace itself. So overall, I think this is something that we feel good about in terms of how it's likely to play out in the marketplace.

Moderator: The next question comes from Dipesh Mehta with Emkay Global.

Dipesh Mehta: Okay. So two questions. First about I think you earlier in your one Firstsource framework alluded to white spaces. So if you can help us understand the identified white space across segments and any plan to expand into from the major verticals, three vertical where we are to add any fourth vertical kind of thing?

Second is about cross-sell and up-sell. Now you indicated about some of the identified client partners and all those. And so if you can help us understand how -- what changes you are making in go-to-market which can help you to create strong even after a strong deal closures? So if you can provide some sense around it.

Ritesh Idnani: Thank you, Dipesh, for your question. Let me address the first point and then come to the second part of the question. So if you think about our current footprint in existing accounts, in several of the accounts we might be present in one or two capability areas. So we might be doing, as an example, collections and customer experience for a bank, but there's probably opportunity to increase our share of wallet in just those areas itself within the bank. We might also have the opportunity to, let's say, service some of their assets, whether it's consumer loans, mortgages, credit cards, et cetera, from a back-office loan processing standpoint. We might also have the opportunity to help them in their risk and compliance, financial crimes, fraud and so on and so forth as capability sets. Each one of these represent areas where we can either increase share of wallet or expand into areas that we might not be present in. And this is where -- this is what I mean by the white spaces that we see in several of these accounts that we currently partner with.

Your second question was related to -- the second point in the first question was related to other new verticals that we might be thinking about. Look, the three verticals that we play in, and I'll also include utilities in this, but if you think about banking, financial services, Healthcare, communications, media, technology and the utility space, we address a substantial part of the industry addressable spend itself. So on one hand, our focus is to continue to go deep in these verticals because that's what creates competitive differentiation for us.

I'm a firm believer of the maximum that less is more, and it's better to be an inch wide and a mile deep rather than try to be everything to everybody. But at the same time, look, there might be opportunistic areas that we might choose to get in, it could be in an emerging geography, which we might say, “Hey, look, it's worthwhile for us to try and get going there. and leverage the industry verticals that we're already in” to get into those geographies from a new market standpoint. It could also -- there could also be opportunities coming about where we might say, "Hey, there's a tuck-in acquisition to get a foot in the door in a new vertical." But those kinds of things are more opportunistic rather than something that we are actively planning for.

The second question that you had was related to how we are thinking about our account management structure and how do we plan to scale up our footprint in these accounts itself. One of the areas of opportunity for us is where we have several accounts, which I would call a strategic logo, and these have the potential to give us several tens and hundreds of millions of dollars in terms of the opportunity or the addressable spend in those accounts itself. One of the things that's critical to realize that potential is to have dedicated team structures, which can allow us to interact with senior stakeholder relationships, multiple buying centres and create as well as close the opportunities that come as a consequence of that. And that's where one of the things that we are looking to do is to continue to step up investments where those opportunities exist. Have dedicated people whose life depends on growing those relationships itself and realize the full potential that these accounts represent. Dipesh, does it address your questions?

Dipesh Mehta: Yes, it does. The last question is just about the margin. Now we are marginally turning our guidance to 11% and 11.5%. So any specific headwinds which you are forcing in H2, considering any investment plan or something? And how one should look medium term, you indicated profitable top quartile growth, but whether margin also would be top quarter in once we look medium-term perspective?

Ritesh Idnani: So, let me address this on two fronts. So one is we have indicated that from an EBIT margin standpoint, our guidance for H2 is 11% to 11.5% from an EBIT perspective. And we want to continue to operate with that even with some of the investments that we want to continue to make in the business itself.

What I am confident of is of improving our margin trajectory over the medium term without compromising our growth aspirations. And I see multiple levers for that. We talked a little while back the on-site to offshore shift is an obvious one. And while we've been focusing on that for some time, I still see an opportunity for improvement out there.

But in addition to that, right, there are multiple levers that exists, whether it's the employee pyramid, whether it's span of control, how we staff our delivery models, how we look at right shoring resources across functions, optimizing our current delivery infrastructure, I think we have spent an enormous amount of time already in the 8 weeks that I've been here detailing out all the value levers that exist for margin improvement itself. And I think we expect that this will result in improvement from the levels we are at. What I want to also add is, I'll be able to give you a more concrete sense of our revenue growth and our margin aspirations with our Q4 results, but I am confident of improving our margin trajectory over the medium term without compromising our growth aspirations.

Moderator: The next question comes from Jalaj with Svan Investments. Please go ahead.

Jalaj: I had two questions. One was with regard to the cash flow statement. I do see in the working capital adjustment, that there is a reversal entry for loans and advances, almost INR160 crores. Could you throw a little light on it as to what does it stand for?

Dinesh Jain: I think there's a reduction in the liability. I'm not sure which line item you're referring to.

Jalaj: changes in working capital just below the trade receivables.

Dinesh Jain: This is related to the investment of about GBP 15 million as part of the extension of our contract with the Top client that we highlighted in Q1FY24. Of this GBP 9.5 million was paid in H1FY24 and the balance will get paid in FY2025. **[This part was added after the Q2FY24 earnings call.]**

Jalaj: Sure, sure. And second question was with regards to -- for Ritesh, you mentioned that our aspiration is to go to top quartile performance. So maybe in the short term -- in the medium term to long term, so you partially did touch up on that, but I just wanted to have a what would it take us to be there in terms of service lines offering? Do they need to be expanded or do we have enough bandwidth in terms of offerings right now? So what would be the strategy to be there? What would it take to be there?

Ritesh Idnani: So thank you for that question. If you go back to what I talked about in the in the 'One Firstsource' framework itself and where the opportunities are, right? One of the things that you will see in the context of that was, a, the opportunity to cross-sell and up-sell in our existing accounts itself, right? And this is adding the share of wallet in the existing work we do, but also expanding capabilities in those accounts.

So the second thing that we also talked about is not just take the five service lines that we have today, whether it's collection, CX, trust and safety, data and analytics, right, and the entire digital piece itself, but the objective around that is to ensure that we are able to bring those capabilities in every account itself, right? That's critical from our vantage point. At the same time, we are also actively strengthening our footprints from a delivery standpoint in Eastern Europe, South Africa and Latin America. I think it's a combination of each one of these things. It's not one or the other, right? So all of these levers together when deployed collectively result in a very focused execution framework creates the playbook or the foundation for top quartile revenue growth. So it's not one or the other, but the ability to bring all these together to enable that.

One of the questions that came a little while back also is having a dedicated team, which is the other area that we're also focused on to say, look, if there is a strategic account that we believe has headroom for growth, let's make sure that there is a person who's focused on trying to grow that relationship in a meaningful manner. So that becomes also an additional lever that's there. So it's a combination of all of these things. Identifying the right accounts for growth, knowing the white spaces in those accounts, having a plan to deliver against that, having the right set of capabilities to be taken to those accounts and having the right kind of delivery and execution capabilities to back up what we need. Bringing all of these together creates the secret sauce for secular growth, which ends up in top quartile.

Jalaj: Got it. And one more question, if I may. So there has been this discussion of the rightsizing or moving from on-site to offshoring. So where are we on those -- in terms of, if I were to say, let's say, 100% of the old accounts are the pie which is, so renewals would come, so we would see this movement? I'm asking this because there might be revenue loss, margins would be accretive. But since the on-site billing and offshore billing are slightly different. So how much of the percentage of the portfolio has already been converted or of that which can be in this sense?

Ritesh Idnani: So without getting into specifics of what percentage of our portfolio, etc., I think the way to view this is on two counts. Number one, in several of our existing accounts, we see the opportunity to move some of the work that we might be doing from onshore to offshore where relevant, but also at the same time, take new business offshore as well. Clients value us for the end-to-end capabilities that we're able to bring and the blended delivery mix that exists in our model itself. Secondly, the world we are moving to is no longer just about labor arbitrage, but it's also about technology arbitrage and the ability to bring that to bear to drive meaningful transformation and business outcomes, I think, matters to our customers. If you are able to bring a couple of those things together itself, what we will be able to do is going to be revenue accretive as well as margin accretive. And I think that's what I'm working closely with the entire leadership team on.

Moderator: As there are no further questions, I would like to hand the conference back over to Mr. Ritesh Idnani for closing comments.

Ritesh Idnani: So thank you all for joining the call and the interaction. I just want to close with a few final points. I am pleased with our strong order bookings during the quarter. We are now in execution mode on these deals and the ramp-up should accelerate our growth momentum over H2FY24. More importantly, pipeline replenishment in the quarter was also significantly healthy despite the strong deal wins.

This gives me confidence on the trajectory in the medium term. We have realigned our strategic focus under the one Firstsource framework with the seven strategic themes that I talked about upfront, and we are now putting this into action. I look forward to continued interactions with you. Thank you once again for joining this conversation.

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