

1<sup>st</sup> August 2024

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 30th July 2024**

Please find enclosed the transcripts of the Analysts earnings call conducted on 30<sup>th</sup> July 2024, after the meeting of Board of Directors held on 30<sup>th</sup> July 2024, 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 Digitally signed  
NAMBIAR by POOJA SURESH  
NAMBIAR

**Pooja Nambiar  
Company Secretary**

**Encl.:** A/a

**Firstsource Solutions Ltd.**

5<sup>th</sup> Floor, Paradigm 'B' Wing, Mindspace, Link Road, Malad (West), Mumbai - 400 064 India.  
Tel: +91 (22) 6666 0888 | Fax: +91 (22) 6666 08887 | Web: [www.firstsource.com](http://www.firstsource.com)

(CIN: L64202MH2001PLC134147)



**“FIRSTSOURCE SOLUTIONS LIMITED  
Q1FY25 EARNINGS CONFERENCE CALL”**

**JULY 30, 2024**

**MANAGEMENT:**

**MR. RITESH IDNANI,  
*MD & CEO***

**MR. DINESH JAIN  
*CFO***

**MR. PANKAJ KAPOOR  
*HEAD STRATEGY & IR***

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Firstsource Solutions Limited Q1FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded.

On this call, we have Mr. Ritesh Idnani - MD & 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 the company's 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 the Company has mentioned in its prospectus filed with SEBI and subsequent Annual Report 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. Hello, everybody, and thank you for joining us today to discuss our financial results for the first quarter of FY25.

Before I start with the discussion on our performance, I would like to thank each one of our 29,231 Firstsourcers around the world for their extraordinary work and commitment to our clients, which resulted in delivering another strong quarter for us.

Q1 is a milestone quarter for us from multiple dimensions. We clocked our highest quarterly revenues ever in the history of the Company and our growth in the quarter is in the top decile among our peer group. What pleases me even more is that this strong growth has come in a quarter that has historically been a seasonally muted quarter for Firstsource. We also won three large deals in Q1 and despite that we exited the quarter with a very strong and robust pipeline.

#### **1. Financial Performance**

Let me now give you some more color on our Q1 performance.

Our revenue grew by 17.1% YoY and came in at Rs.17.9 billion. In U.S. dollar terms, the growth was 15.4% YoY and 6.7% QoQ at US\$215 million. In constant currency, the revenue grew at 6.5% quarter-on-quarter. I would like to point out that this is our third consecutive quarter of strong sequential revenue growth and a revenue growth of 3%+ CQGR over the last four quarters places us in the top decile of the broader IT and IT-enabled services industry.

EBIT margin for the quarter was 11%. This is broadly stable quarter-on-quarter, lower by 70 basis points versus Q1 of last year and within our guided 11% to 12% band for

the financial year. Our net profit was Rs.1.4 billion and the diluted EPS was Rs.1.92 for the quarter.

## 2. Deal Wins

Let me now turn your attention to the deal wins for the quarter.

We continue to leverage our deep industry and functional expertise and our partnerships in the technology ecosystem to improve our participation in the process transformation agendas of our clients. We signed three strategically large deals in Q1, another first for Firstsource. As you are aware, we consider a deal with ACV of over US\$5 million as a large deal. We expect these deals to ramp up in a phased manner over the coming quarters. We also added ten new logos during the quarter.

Let me highlight a few notable wins:

- We won a large deal from a Fortune 500 managed Healthcare Company in the US, one of our existing clients for member and provider services and end-to-end claims processing services leveraging AI and automation.
- We also expanded our footprint and wallet share in one of the top five Healthcare insurance companies in the US for providing digital intake, claims and provider data management services. This is on the back of our digital intake platform that allows us to ingest both structured and unstructured data.
- We won a large deal from a premier SaaS platform for the freight industry in North America for providing customer service and back-office operations. This was also a new logo for us.
- Another new logo addition with a scale deal was from a leading pension administrator in the UK to improve their service coverage.

## 3. Vertical Commentary

Let me now provide you a deep dive into our performance and outlook for each one of our industry verticals.

### a. Banking and financial services (BFS)

In Q1FY25, our BFS vertical was up 4% QoQ and 2.2% YoY in constant currency terms. Traditionally, Q1 has been a seasonally muted quarter for us in this vertical, but we were able to counter the trend this year due to our concentrated efforts over the past few quarters to reduce the macro dependency in the portfolio. For example, while elevated interest rates remain an overhang in the mortgage market, our focus on engaging on the cost optimization programs with our customers is helping us expand our market share, especially amongst our line of our customers. Our AI use cases for the segment are also seeing strong interest from customers looking at non-linear execution models to prepare for the expected volume upcycle in their business.

As you recall, we have made several key hires over the last couple of quarters to strengthen our sales and solutions team in this vertical. This is also helping us gain

access to several potentially large logos and expand our pipeline as well as have focused execution on cross-selling additional service lines in our existing accounts.

We continue to make progress in our efforts to broad base our portfolio in this vertical, both in terms of market segment as well as in terms of our service offerings. For example, our collection services are seeing strong traction amongst fintech players and our competitors for this offering are largely other SaaS players in this space. We are also seeing growing interest in our new service offerings around financial claims and compliance.

We added five new logos in this vertical in Q1. Overall, we expect a sequentially improving growth trajectory in this vertical through the rest of FY25.

**b. Healthcare**

For Healthcare, Q1 was a strong quarter. Our revenues grew 15% quarter-on-quarter and 26% year-on-year in constant currency terms, helped by ramp ups in the deal wins that we've had in the recent quarters, particularly in the payer segment.

Medicare utilization has been on the rise in the US and along with weaker payment rates and high medical costs, this is putting pressure on the margins of healthcare insurers. This has led to a surge in transformative initiatives across our payer clients as they seek ways of optimizing their cost structures. We had two large deal wins in this segment in Q1 and we continue to see a very strong pipeline with several potentially large deals across the large client base, giving us confidence of maintaining the growth momentum in this segment in FY25.

Our provider business has also been stable. As you recall, we announced the acquisition of QBSS in the last quarter. QBSS is strong in the mid office revenue cycle management market and complements our strength in the front and back-office markets, thus enabling us to now go to market with a significantly enhanced end-to-end value proposition. The integration of our teams is progressing well.

We also had our first joint deal win in Q1 and the synergies helped us close an additional two transactions in the very first quarter of integration. We added two new logos in this vertical, one each in the payer and provider business. Overall, we expect growth to remain strong in the vertical, driven by the payer segment.

**c. Communications, media and technology (CMT)**

We saw strong growth of 17% year-on-year though the revenues were largely flat quarter-on-quarter in constant currency terms. As you know, for us, this vertical is made-up of three sub segments - Telecom & Digital Media, EdTech and Consumer Tech. Let me give you a color on each one of these.

We are seeing a healthy momentum in our telecom and media business. As you know, companies in this vertical are large but mature, outsourced. As such, we are positioning ourselves as a challenger to the existing ecosystem by bringing in our entire service portfolio. Our proposition is resonating well with both our existing clients and new. We added one new logo in this segment in Q1. We also see a good deal pipeline including a couple of large deals in advanced stages.

In EdTech, our engagement with ETS continues to scale up. We are also expanding business and other logos that we have added over the last few last few quarters.

In Consumer Tech, we continue to expand our footprint amongst the market. Consumer Tech logos with a nontraditional service proposition that is seeing good traction in the market. For example, we are working with two of the largest Consumer Tech brands in training their AI models, leveraging our AI OPS framework. We also added a third logo during the quarter.

In Q1, we also won a large deal from a new logo, a premier SAS platform provider that I referenced earlier. Overall, we added three new logos in this vertical. We continue to have a healthy deal pipeline out here and are hopeful of converting some of these deals in the coming quarter. Overall, while movement of specific processes from onshore to offshore in our top client could remain an optical headwind in the near term, we expect good growth in the overall vertical given continued ramp ups in other clients as well as the healthy deal pipeline.

#### **d. Diverse**

Lastly, our diverse vertical, which mainly comprises Utilities & Energy grew 34% year-on-year in constant currency terms in Q1. In sequential terms, revenues in this vertical declined by 3% quarter-on-quarter due to seasonally lower volumes in one of our large accounts. We expect the same to recover in Q2. We are also making concerted efforts to expand our client portfolio in this segment.

#### **4. Geography**

Growth in Q1 was driven by the US with a 12% quarter-on-quarter growth and a 24% year-on-year growth in constant currency terms. We saw a 3% quarter-on-quarter decline in Europe due to quarterly volatility in a couple of clients. Besides the optical impact of plant on site to offshore shift in our top client.

From the macro perspective, companies in the UK are facing significant cost pressures that is leading to increased conversations around carve-out deals. We also see a growing recognition of the need to pivot towards offshoring based on the pipeline. We expect Europe to see a stronger second-half in the US we expect a more broad-based growth across verticals.

## 5. People

Our total employee count was 29,231 Firstsourcer as of 30th June 2024. Our trailing 12-month attrition rate for the quarter stood at 32% compared to 35.4% in Q4FY24 and 41.7% in the same quarter last year. We expect this metric to continue to trend downwards in the coming quarters, albeit at a more moderate pace supported by the positive outcomes of our employee value focused initiative. Aimed at enhancing retention and satisfaction. Additionally, during the quarter, we also launched FirstALUM. This is a platform to create a first source alumni network to encourage our former employees to stay connected to development in first source as well as keep them informed of potential opportunities to resume their association within the Company either for themselves or for their network and finally, to contribute to opportunities within the broader Firstsource community.

## 6. Awards and Recognitions

We also won several awards during the quarter and let me talk about the same. In Q1, we were recognized as a disruptor amongst the service providers to the Healthcare provider industry by HFS research for our full life cycle RCM offerings. During the quarter, we also committed to Science-Based Targets Initiatives reinforcing our commitment towards reducing carbon emissions as per the set guidelines.

With that, let me turn over the call to Dinesh to give a detailed color on the quarterly financials and related matters. I will come back after that to talk about our progress on the strategic priorities as well as the outlook for FY25.

## Quarterly Performance

**Dinesh Jain:**

Thank you, Ritesh and hi! everyone.

Revenue for Q1FY25 came in at Rs.17.9 billion or \$215 million. This implies a year-on-year growth of 17.1% in rupee term and 15.4% in dollar term. In constant currency, this translates to a year-on-year growth of 14.8%. On a sequential basis, our revenue growth is 6.5% in constant currency term. I am happy to report that we have returned to double-digit year on growth in constant currency and after 11 quarters that were affected by the portfolio changes in our mortgage businesses.

We reported operating profit of Rs.1,970 million in Q1FY25, up 10% over Q1FY24. This translates to an EBIT margin of 11% similar to last quarter and down 70bps on YoY basis. As you are aware, we have been making significant investment in our businesses. A large part of this has been in hiring leadership, sales, solution and technology talent that has associated upfront costs. Despite this, we have been able to keep our margin stable. We have also advanced our annual wage revision cycle from Q3 to Q2. While this will pose some headwinds in our margin in Q2, we remain confident of staying within our guided band for FY25. Profit after tax came in at Rs.1.35 billion, or 7.6%, of the revenue for the quarter.

Coming to the other Financial Highlights for the quarter:

The tax rate was 19.1% for the quarter within our previously guided range of 18% to 20% for FY25. Reported DSO moved up in the quarter to 68 days in Q1, mainly due to some delay in collection of couple of healthcare accounts. Almost all of these were collected in the first two weeks of July and normalizing to that, our DSO is at 61 days.

The cash balance including investments stood at Rs.2.1 billion at the end of the Q1. Our net debt stands at Rs.9.7 billion as of June 30th, 2024, versus Rs.6 billion as of March 31st, 2024. This increase was mainly due to the higher working capital requirement which we have due to the higher revenues as well as some DSO delay. We also converted some short-term working capital loans to a long-term to gain advantage of the interest cost arbitrage which is as of today in the market.

During the quarter, we also paid the cash consideration of Rs.2 billion for the acquisition of QBSS. I am happy to report that we have completed the integration of QBSS during Q1 itself.

We continue to invest in expanding our execution infrastructure. In Q1, we have added two new seating capacity in Chennai and Philippines. We are also investing in additional capacities in Hyderabad and Mexico.

Our hedge book as of 30th June were as follows: We have coverage of GBP 72.8 million for next 12-months with average rate of Rs.106.9 per Pound and coverage of \$133.2 million with an average rate of 84.6 to a US\$.

This is all from my side. I will hand the call back to Ritesh to talk about our strategic priorities and outlook.

**Ritesh Idnani:**

Thank you, Dinesh. As you will recall, One Firstsource framework has been our playbook for the strategy refresh across the organization over the last three quarters. Our Q1 Results are a testimony of our focused execution on each one of the seven themes that we outlined as part of this playbook.

In the interest of time, let me highlight the progress we have made on a few of these themes in Q1. One of the foundational tenets of the One Firstsource Playbook was the simplification of organization design and realignment of the leadership team. During Q1, we hired Sohit Brahmawar as our new President and Chief Operating Officer. Sohit has over 25 years of rich and varied experience across global organizations, and in his most recent stint, he was leading a global team of over 50,000 people as the chief delivery officer.

During Q1, we also made several senior hires to fill identified gaps in sales, solution design, technology and delivery operations across market units and capability units. We also added muscle to our technology and partnerships team. I believe we now have the



team in place to deliver on a medium-term growth aspiration. What gives me confidence is the quality of leadership talent we have been able to attract, and I see that as a validation of both our core strengths, our revamped go-to-market strategy and our ability to build a resilient, durable and differentiated business with industry-leading growth. Given the healthy momentum we are experiencing, we continue to invest to ensure that we can capitalize on the momentum with our differentiated proposition in the market today.

During Q1, we also completed the setting up of a customer advisory board that includes experts across verticals, such as financial services, healthcare, communications, media and technology. These are industry veterans who held senior leadership roles in various globally reputed companies. We intend to leverage their deep domain knowledge and experience to improve our value proposition, guide our strategic thinking and amplify the Firstsource brand in the marketplace.

Our investments in reinvigorating our sales engine are also yielding results. In Q1, we won three large deals. We've also identified a set of both existing accounts as well as the basket of new logos where we are making a concerted effort to drive growth. Our success in rapidly refilling and growing the deal pipeline gives me confidence that we are on the right track.

Another key theme of the One Firstsource Playbook was to bring technology and everything we do. This includes building technology-led proposition to disrupt incumbents in our target set of accounts and infusing our existing frameworks and platforms with the latest technologies to improve their relevance and attractiveness in the marketplace. Today, we also announced the launch of "reIAI," a suite of AI-led offerings, solutions and platforms to drive digital transformation of clients in a responsible manner. The offerings are aimed at each stage of the transformation journey, starting with the discovery phase where we partner our customers in assessing and benchmarking their AI readiness, discovering the use cases, selecting the optimal platforms to the mature phase where we help with data engineering, building of AI platform stacks and verification and training on LLMs. We are also infusing our current platforms across Healthtech, Fintech and CX with AI to significantly enhance their operational efficiencies and improve business benefits to customers while continuing to deepen our partnerships with innovative startups and hyper scalars. In my view, reIAI is a prime example of how we are leveraging the current tech disruption to our advantage.

Finally, I would like to draw your attention to our margins that have remained in a narrow band over the last four quarters despite the stepped-up investment. This underscores our efforts on cost optimization and driving operational efficiencies as part of the One Firstsource framework. We've identified 24 specific margin levers where we see meaningful scope for improvement, some, like offshoring or right-shoring resources, are already in play, which you see in the business mix, while others like increasing the span

of control as well as consolidation of onsite delivery locations, would have a more visible impact over the coming quarters. We are also taking a hard look at our portfolio to identify accounts with sub-optimal profitability and pushing for corrective steps there, including reviewing the contract commercials. Overall, I feel comfortable with our ability to drive a consistent improvement in our margins, which would have a more visible flow through in our reported margin starting next year, even as we keep them in a narrow band during our investment phase in the near term.

In summary, I am pleased with the progress we have made in the last three quarters in each of the areas we've identified for the strategy refresh.

**Business Outlook:**

For the Fiscal Year '25, we now expect our revenue to grow in the range of 11.5% to 13.5% in constant currency terms. This is ahead of our initial guidance of 10% to 13%. We also remain optimistic of achieving a US\$1 billion revenue run rate by Q4 of FY26. For operating margins, we continue to expect our FY25 EBIT margin to be in the range of 11% to 12%. This is inclusive of the impact of upfront investments that we are making in the business. Post the investment phase, we expect our EBIT margins to improve by 50 to 75 basis points each year over the medium-term as we have stated earlier.

This concludes our opening remarks, and we can now open the floor over for questions. Operator, over to you.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

**Vibhor Singhal:** So, it is basically two questions from. My side, lots of strengths in the results in this quarter. So, I think the only pocket of weakness which we could find was possibly the CMT vertical. So, as you had alluded last quarter as well, I think this quarter this vertical will see the weakness because of the onsite to offshore shift for the top client. So, what is the outlook on that client and the vertical. Is the onsite to offshore shifts that you were expecting is it complete or is it going to come in the next couple of quarters? And taking that along with what will be the kind of growth rate that we are expecting or let's say what the growth outlook for this segment for FY25 on an overall basis?

**Ritesh Idnani:** While I don't want to talk about a specific client, but what I can tell you is that we continue to engage very actively with all of our large clients in this vertical and we continue to gain new business from them. Specifically on our top client, you're aware that we are working on moving some components of the work from onsite to offshore and this transition is happening in phases. So, there could be some volatility on a quarter-on-quarter basis, but I wouldn't read too much into it. On a full-year basis, it's in line with our estimates and it's already factored in our guidance. So, there's nothing new out there that you need to think about there. It's in line with our guidance that we provided in the beginning of the year. At the same time, what I also want to talk about is our CMT

vertical from an overall pipeline standpoint continues to be very robust and we are seeing traction both in the Telecom & Digital Media space, as well as in the EdTech side, and finally in the Consumer Tech side. So, we are seeing a broad-based growth across all the three sub-segments out here and you will see some logo conversions in the coming quarter as well.

**Vibhor Singhal:**

Second question is on the Healthcare vertical. Of course, this quarter saw a very sharp jump in revenues because of QBSS as well as of course the ramp up of deals. So, again, in this front, is the initial ramp-up of most of these deals complete and hereafter we could expect a normalized run rate, or do you believe there could be some sharp volatility in the revenue run rate in this vertical going forward? On an overall basis, just wanted to cross verify that we would expect Healthcare vertical to grow above the Company average for FY25?

**Ritesh Idnani:**

So, let me start at the outset by saying, we do expect the Healthcare vertical to grow above the Company average for the year, and we do expect that growth to be largely driven by the payer segment, and #3 we expect the growth in the payer segment to be broad-based across a wide range of clients as opposed to a particular client itself. So, those are three comments that I just want to make right at the outset. On the payer side, what I think is helping us is the fact that our strategy to focus on strategic accounts is playing well and we had good deal wins in the space even in Q1. What you have seen some of the growth that we experienced in Q1 is a function of the deal wins that we had in the last three quarters and a lot of that ramp continues to happen in phases. So, it's not like everything is fully out there. But at the same time, we also see a very healthy pipeline in the payer segment and that's what makes us confident about the outlook for the segment itself. On the provider side, we are focused on broad basing our portfolio. So, we are quite excited by the potential in the offshore RCM market where the QBSS acquisition now allows us to aggressively compete with the technology-led end-to-end capability on the RCM side. We had two joint deal wins in the quarter, which is a validation of the rationale for acquiring QBSS in the first instance and I think we continue to build up on top of that.

**Vibhor Singhal:**

Just one last question for Dinesh. I think you mentioned the wage hike has been kind of moved from Q3 to Q2. Given that we are in July and large part of the wage hike would already have been rolled out, what is the likely impact on margins that we are expected to see on the gross level of the wage hike and where do you expect the margins for Q2 to land up, would we be able to negate that drop by other levers or do you expect a drop in margins in Q2?

**Dinesh Jain:**

No, I think as I said, we will continue in the same band range of 11% to 12% and I think wage hikes are in the same lines what we are historically doing. I don't want to comment specifically on percentage, but I think the margin guidance will remain within 11% to 12%.

**Moderator:** The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

**Manik Taneja:** I just wanted to pick your brains with regards to the revision in terms of guidance given the qualitative commentary that you shared, the deal wins that you've spoken about as well as the likely trajectory across industry segments, the implied growth arithmetic for the next three quarters appears to be quite conservative. Just trying to understand what exactly is driving that? The second question was with regards to the metrics or the improvement in terms of offshore revenue mix. While I understand there is an element of the acquisition consolidation as well, but would be great to simply get your sense in terms of how should one be seeing this metric move over the course of foreseeable future as well as the likely tailwind that's emerging because of this phenomenon?

**Ritesh Idnani:** Let me start with the first question on the guidance itself. So, Manik, our guidance is based on a line of sight in the business over FY25 as of today. So, I don't want to qualify it in any manner or comment on what you alluded to in the quarter-on-quarter growth calculations itself. But from our vantage point, what we are trying to do is to keep our focus on supporting our clients proactively in the transformation agendas and identifying opportunities to expand our footprint, both within our existing clients as well as new logos. Our sales engine is chugging well. I feel confident of our revamped go-to-market strategy as well as the rigor that we are bringing in, in our execution. And that's quite honestly what gave us confidence to raise the guidance from 10% to 13% that we provided at the beginning of the year to 11.5% to 13.5% now. I would like to leave it at that spot now based on what we see because we are trying to make sure that this is the best possible visibility that we have at this point in time. With regards to your second question on the offshore, onsite mix, the one thing you would have seen as you look at just the last four quarters itself, right, our revenue by delivery from an offshore-onshore standpoint, if I go back to Q1 of FY'24 to where we are today, we were at about a 25-75 mix and we are now at about a 35-65 mix. What you will see is just the renewed focus on continuing to try and balance that mix out towards the greater offshore concentration and that's something that all of us in the leadership team are driving very clearly. I don't want to comment on what it might play out on a particular quarter itself or what this outlook might assume, but what you should take away is that as a secular team, the offshore to onshore mix should continue to move directionally in the same manner as it has over the last four quarters.

**Manik Taneja:** How should one be thinking about the margin profile for offshore delivery of our business compared to the typical onshore or nearshore delivery, that will be great to get your inputs on that?

**Ritesh Idnani:** Look, obviously the offshore delivery comes at a higher margin than the onshore delivery. Look, there are a bunch of puts and takes out here, right. So, think about the last three quarters also, we've been trying to play a very fine balancing act between what investments we need for the business, what cost takeouts we need to do to ensure that we can continue to support the growth that the business demands and to ensure

that we are able to build something that's truly resilient and durable. So, while we might end up getting some margin benefits from the greater offshore concentration, some of it we are also in the near-term trying to leverage in the context of maybe supporting additional investments that we also need for the business as well. So, that's the way we are trying to balance it out, but suffice to say, at a summary level, the offshore margins are obviously higher than the onshore margins that we get.

**Moderator:** The next question is from the line of Jalaj from Svan Investments. Please go ahead.

**Jalaj:** I had a few questions. First of all, could you break the growth in healthcare vertical both organically and the inorganic part? On the organic, what part has come from a payer and a provider, some directional view over that?

**Ritesh Idnani:** So, let me address the first one, which is if you take our overall growth for the quarter itself, a couple of percentage points is what we've got from QBSS from a contribution standpoint. We are not breaking out the payer-provider mix itself in terms of the revenues because what we are starting to see is increasingly also a convergence, where a bunch of payers have provider offerings and vice versa. So, the rider capability sets is emerging. So, we are also starting to view the business in that context where it's more integrated than otherwise.

**Ritesh Idnani:** And there is a bunch of overlaps that end up happening. So, from that vantage point, as much as we talk about the capability sets and where we see traction, this is the way we are actually viewing the revenue split.

**Jalaj:** So, no quantification of QBSS contribution this time? Could I have the number there?

**Ritesh Idnani:** I mentioned the number. The overall growth is about 2% from QBSS. So, the rest you can do the math.

**Debashish:** This is Debashish from Svan Investments. So, one more question apart from what Jalaj asked. Sir, if I see our guidance, obviously, this is including the inorganic contribution that we have. So, even if I assume that flattish performance for next three quarters will be easily achieving this kind of numbers. On the one side, we are talking about higher order book, higher pipeline. On the other side, we remain very, very conservative. Is it because of the uncertain macro scenario or it is like we are trying to be competitive?

**Ritesh Idnani:** Look, I think the way to think about it is given the strong growth that we had in Q1, it was natural to raise the lower end of the guidance, right? The guidance band, however, is influenced by a variety of variables. For example, how we see the pipeline converting, the pace of ramp up of deals that we have pulled on.

It is very difficult to quantify each and every variable for you. At the same time, it is difficult for me to comment on the macro variables as well. In fact, you may have a

better view on the trend of these variables, right? Because if I listen to the Fed Chairman every month, the commentary out there could vary, right?

So, the reason that we are trying to build this out is to say that our guidance is based on what we are seeing in our business as of today. We are not making any assumptions on the macro variables on which we have no influence whatsoever.

So, anything that happens out there is purely an upside to the numbers. And from our vantage point, we are trying to make sure that with that visibility of data and pipeline, pace of ramp up of deals, etc., where do we stand at this point in time is what we are trying to provide visibility to and this is the best that we could do at this stage.

**Debashish:**

So, should we assume that because considering the size that we are operating to, I don't think macro has a very large role to play in our performance. Should we consider that despite macro performing, our order book and everything is giving us sufficient confidence that we will be able to possibly meet our higher end guidance or possibly cross that?

**Ritesh Idnani:**

I think it's fair to assume that, and this is one of the things that you probably heard me say right at the outset, which is we are trying to minimize the impact of the macro on our business itself. We want to make sure that we are able to provide a degree of predictability to how we grow the business. What we have tried to do at this stage is to say obviously we had a strong Q1.

We want to make sure and based on the fact that we ended up having that strong Q1, we upped the forecast of what we thought we could achieve, but it's based on obviously a set of variables that I talked about and we are trying to provide guidance given the contours of that itself. So, there is no assumption on macro at all. Whether it's on the interest rate side or otherwise, we think that any of that can potentially just end up being an upside.

**Debashish:**

One last question, sir. If I see our employee cost, obviously you and CFO sir has already touched upon on this, but if I see an employee cost despite shifting towards offshore, it has not come down significantly over the period of last two, three quarters, and I am assuming large part of that is because of the senior hiring that we had done, which has given a positive boost to our revenue and the cost per employee.

So, by what time we can expect some operating revenues to pay out here because the kind of offshore shifting that we had in last three, four quarters, it should have a very positive repercussion on our margin performance? So, by what time we can see a significant impact on our EBIT level margin or EBITDA level margin performance of operating leverage in a margin performance? Thank you so much for answering that question.

**Ritesh Idnani:** No, thank you for asking that question. So, look, let me take a step back and just give you a flavor of where those investments are happening today, right? So, we are making investments in broadly three areas.

First is in expanding our sales and account teams itself. I have spoken about how our sales teams have grown by almost a third over the last six months itself.

Second is on the capability side where we are doing both leadership hires as well as beefing up our solutions teams itself. For example, I spoke about reAI earlier, where we continue to modernize our services and platforms by infusing them with the latest technology. Similarly, we are building out our trust and safety practice. Akash Pugalia, who joined us last quarter and is based in the Bay Area, is leading that effort for us, right?

The third area that we are also investing in is amplifying the Firstsource brand and expanding our relationships and visibility in the analyst and advisor community. You would have seen that also in the refresh in our brand positioning, that's more dynamic and enlarged with our aspirations.

While some of these investments would be ongoing, I expect the bulk of our initial investments on the people front and areas such as leadership, sales and solution teams should be largely over by the next quarter.

So, a lot of our initiatives around cost optimization and margin improvement should gradually get visible over H2. And as I have stated earlier also, that's why we expect to still operate in the band of 11 to 12%, but starting next fiscal, we expect to see the margin uptake of 50 to 75 basis points every year.

**Debashish:** So, sir, aspirationally, should we look at a kind of 15%-16% margin in this business over the period of next 4-5 years, is it a possible number?

**Ritesh Idnani:** The simple answer that I would give is that our peers are typically in the 14% to 15% EBIT range, this business and is continued to undergo a fair amount of shifts also. Those shifts demand investments and capabilities to ensure that the business continues to be relevant and contemporary. So, the way we are designing the business is that we should converge to the 14%-15% over the next three to four years and that's where we are keeping our current line of sight too.

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

**Shradha:** Just a couple of questions related to GenAI. One of the large IT services companies indicated that the productivity improvement because of implementation of GenAI can be as huge as 50% in some of the BPO offerings. So, what are your views on that and

what is the kind of ask from clients in terms of fast-back of productivity improvement today?

**Ritesh Idnani:**

Thank you, Shradha, for the question. I can't comment about the peer group and what they might be seeing out there. What I can see is only what we are seeing in our business and let me respond to this in a few different streams, right, in terms of the impact of GenAI and what we are seeing in the marketplace itself.

First and foremost, today and some of this has not changed even over the last three months when we did the last earnings call, there are a lot of POCs (proof of concepts) that are still being executed. There is very little that's actually moving into a production environment itself.

What I think is critical though is the ability to take AI and provide the art of the possible of how the landscape might shift over the next few years and that's one of the things that we are certainly taking to our customers, and which is one of the reasons why I think we are able to win out there in the marketplace itself.

What I do expect is that AI will certainly cannibalize some of the lower end of the BPS services but it's not material enough. New business opportunities using AI is far bigger and at the same time what I am also seeing is data, AI/ML operations, tech led trust and safety will be a new frontier to expand our business using AI.

Data is the lifeblood of artificial intelligence which is why companies specializing in data management and processing are faring well right now. And from our vantage point, we see an opportunity to play in that space and generate incremental revenue, while at the same time using AI also as an efficiency tool where it's embedded in the solutions that we are taking to market.

One of the other things that's also creating an opportunity for us is to play on offense and take share from some of the larger players who might not be willing to go out there and use disruptive propositions in the marketplace. So, we are also seeing opportunities out there to take share from some of the larger incumbents as well as from undifferentiated players who may not be bringing some of these capabilities to the forefront.

So, net-net from our vantage point, while AI is out here as a secular team is here to stay. We also believe it can be a net positive in terms of how we are approaching the business itself and that's manifested in some of the outcomes that we are seeing.

**Shradha:**

And another question is, you know, we have seen a good amount of offshore shift and I believe that that is to do with the top account in CMT and despite that, I look at the segmental margin in CMT, that's down almost 300 bps Q-on-Q. So, any color on that front would be helpful.



**Ritesh Idnani:** I wouldn't read anything into it. It's probably just one quarter of play or something. Some of that will reverse itself out in the next quarter. So, there are a bunch of other things that we are working on in the same space. So, between our telecom and digital media clients, between our consumer tech clients and with our EdTech clients, we continue to also make some investments in the business. We are building out for capacity for some of the pipeline that we are seeing in the space as well. So, this is natural to put and take in a quarter itself.

**Shradha:** And just last thing again talking about the guidance, Ritesh. I mean, I understand that we have raised the guidance, but looking at how we entered into FY25, probably, the extent of upgrade is not very encouraging, especially given the fact that if you look at the lead indicator like employed growth numbers, that itself is up 5% in this quarter and also we are talking of getting into three strategic deals in this quarter and probably the season, the collections business seasonality that plays out every year in second half. So, would it be possible for you to quantify the areas where you are a bit cautious on and which is why the guidance is talking of flattish growth in the next three quarters?

**Ritesh Idnani:** So, the first comment and I tried to cover this in my opening comments as well, Shradha, is that we are expecting broad-based growth across verticals and across geographies. At the same time, we are also expecting growth across capability areas as well. So, we are not seeing a weakness. Some of these verticals and capabilities may grow at a faster pace than the other, but we are seeing broad-based growth.

That being said, I just want to reiterate the same comment on the guidance itself. We had a strong Q1 that gave us comfort and confidence to raise our guidance from 10% to 13% earlier to 11.5% to 13.5%. It was natural for us to raise the lower end of the guidance.

But at the same time, I want to make sure that the guidance band is influenced by multiple things that we want to be careful about. Whether it's when does the pipeline convert, the pace of ramp-up of deals, all of those are variables that play out with one quarter to over one quarter, two quarters, etc.

So, I want to be mindful of that. And it's difficult for us to quantify each and every one of those variables, and that's the reason why we have decided to stick to the guidance of 11.5% to 13.5%. It's the best visibility that we have based on how we see the business today.

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

**Dipesh:** First of all, the Q1 performance, whether it was largely in line with management expectation at the beginning or it is better than that? And whether we witnessed any

preponement kind of thing in terms of revenue conversion than what you might have anticipated at the beginning?

Second question is about if I go to the past, Sourcepoint related non-controlling stake purchase, I think one of the installments was due in April'24. So, if you can provide some details about how that played out.

Third is about the Group Chairman interview, I think where he made a comment about 2.5x profit growth in next three years. Whether management is also in sync with those kind of expectations from the business?

And last is more about AI, partly your answer, but I have a slightly different twist to the question. Whether in terms of your client interaction, increased interest in AI led to any kind of higher level of productivity expectation from clients? So, when the deals are getting structured, are we seeing clients expecting, let's say, year two, year three onwards, higher productivity built into the contract? Thank you.

**Ritesh Idnani:** Thanks, Dipesh, for all those questions. Let me actually take the second one first and ask Dinesh to comment on the Sourcepoint piece, and then I will come to the three other questions that you had.

**Dinesh Jain:** So, I think, Dipesh, we paid the last installment in April, which was US\$ 2.5 million, and now no more payment, in respect of any of the acquisition or the transaction that was with the Sourcepoint is now pending in the books. All has been closed.

**Dipesh:** One was, I think when we announced it, was also due in April'25. So, now is it no longer due?

**Dinesh Jain:** No, no, it was for three years. So, FY24 was the last one which we have done.

**Ritesh Idnani:** I think the first question was related to how we felt about the quarter that went by relative to our forecast. Look, we knew it was going to be a strong quarter, and sometimes it comes back to the comment I made even when we were talking about the guidance, right? At any stage in the life cycle, sometimes you don't know when some of the pipeline might convert, when the deals might ramp up, etc. So, we feel good about how we did in the quarter. We thought it was a strong performance.

I am going to address the third question, the last question that you had related to the commentary that Dr. Goenka made on CNBC. Look, very simply put, we raised our guidance for constant currency growth to 11.5%-13.5%. We maintained our EBIT margin guided band at 11%-12% in FY25, including the ongoing accelerated investments in the business. We have also maintained our aspirations for a \$1 billion run rate by the 4th Quarter of FY26, as well as improving our margins by 50 to 75 basis points each year over the medium term. Both these levels of commentary pretty much align to the same end-state itself. So, there is nothing which is out of sync.

What I would also say, which you didn't talk about, so let me bring it to the table anyway, is he talked about targeting three large deals in a quarter. We actually did that in the quarter that went by. And we have been making a focused effort to rev up our sales engine. So, we feel good about how we are building out this business itself, both from a growth capability as well as from a margin standpoint. And that's what gives us comfort in terms of how we are setting this up for a more resilient, durable business over the long haul.

I know you had one more question, which I think I missed.

**Dipesh:** So, the question is about increased interest in AI, whether clients are asking for higher level of productivity, the way deals are getting structured, year two, year three onwards?

**Ritesh Idnani:** So, I think what I am seeing is that clients, you know, we are participating very actively with customers on their revenue growth, cost optimization and process transformation agenda and how we can bring in tech into those solutions.

What you will see with that is not necessarily a linear headcount-based pricing model, but you are seeing innovative commercial constructs and a lot of it particularly where we are actively hunting for sole source opportunities, both in our existing portfolio accounts as well as new logos. We are seeing the opportunity to construct the deal on our own and that gives us the flexibility to determine the kind of benefits that are possible where we can reduce the total cost of ownership for our customers for that scope of work itself.

Now the way we might bring that about might be through higher productivity. It might be by bringing in the promise of what AI can bring to bear so on and so forth, but eventually it comes down to can you take a customer from point A to point B. Where I think there is an opportunity for us is today, clients don't know what they don't know, and service providers are not competing on an even keel.

So, it's not an apples to apples playing field. And that gives opportunity for nimble, agile, innovative providers like us who are challenging the status quo to go out there and disrupt and try and bring solutions which help address complex business problems. That is where I think we are able to win in the marketplace today.

**Moderator:** Thank you. We have the next follow-up question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

**Vibhor Singhal:** Just a couple of follow-up questions from my side. One is in the headcount addition that we saw in this quarter, how much is linked to the QBSS acquisition and how much was the basically headcount addition in our own Firstsource company?

The second thing is, Ritesh, you have mentioned that, I mean, we have seen the increase in offshoring from 25% to 35% over the past two, three quarters. Where do

you think with the current business mix that we have, given that many a times it's a regulatory requirement to have higher on-site people, the mix of GenAI that we are looking at, what could be the upper ceiling for this number? I am not asking for a timeline that we did ever reach that, but what do you believe could be a potential cap that, okay, that is a number that could probably be where it would be difficult to reach in that sense?

And lastly, a question for Dinesh again. In terms of our net debt position, what is our basically outlook on this? How do we expect this net debt to come down over the next few quarters? And is there a timeline that we have in our business plan made as to when would we be likely looking at a net cash company?

**Ritesh Idnani:** Dinesh, you want to take the question first, and then I will come to the first two questions that we have all had.

**Dinesh Jain:** Yes. So, I think net debt position, as you see, I think most of the cash flow this quarter has basically slightly a higher DSO. That's the reason the cash flow is slightly weak and at the level. I think the debt level has increased. Otherwise, we expect, that every quarter whatever the surplus cash remains, which we expect to be between, \$10-12 million, which we generate every quarter, we should utilize to repay these borrowings, which is the norm which we have considered as of today. But I will not be able to give you exact timeline when it will be, but if you really model it, most likely that is equal to around \$110 million to \$115 million, it should be probably within 6 to 8 quarters, when the normal cash generation should make it net debt zero.

**Vibhor Singhal:** My other two questions, Ritesh, if you could.

**Ritesh Idnani:** Yes, Vibhor. So, the remaining two questions that you had, let me address the second one first and then come to the first question on the headcount. So, it's hard to put a specific number on where we expect that mix to get to. What we know is we are trying to directionally continue to move towards the higher offshore revenue contribution from a delivery standpoint. So, I think as a secular team, it will continue to go that way. But one of the things that also allowed us to differentiate ourselves in the market, right, A, we play in regulated markets, particularly financial services and health care. Regulated markets require oftentimes that the work is done in country in the market itself.

Number two, it allows us to take on a process end to end. And those are actually key differentiators in the market. In fact, one of the deals we won last quarter, we were up against a couple of our large IT services brethren whom we were competing with, and they could not show the in-country footprint. And that was one of the reasons why we actually ended up winning the deal was because they just didn't have the comparable capability set. We think that that is actually a differentiator for us if used in the right way.

So, I know I am not giving you a very specific answer on the number which you are looking for, or even a time horizon, but I think what you will end up seeing is directionally

this number moves in the right, continues to move upwards. I don't know what's the ceiling for it, which is what you are asking for. And it's hard to say whether it's going to happen over three quarters, six quarters, four quarters, etc. But you should expect the mix to continue to trend in favor of offshore. That's the second question.

The first one, so one of the areas of focus for us also, Vibhor, is to reduce the linearity in our business as well. Right? So, there are elements which require headcount addition and QBSS had some tech capabilities. They have their platforms that they use to deliver some of the coding work that they do as well as some of the AR follow-ups and so on and so forth. We are able to deliver a lot of services today on the back of the tech platforms and IP that we have. So, when you look at a combination of some of these things, that is going to have a bearing on how headcount addition actually plays out every quarter. So, it is going to be a combination of some linear work and some nonlinear work itself.

I will give you another example. We launched our Collections as a Service capability last quarter. And that actually allows customers to build a cutting-edge digital collections capability with minimal human intervention. And it's largely configurable right from the get-go. And those are the kinds of things that actually allow us to differentiate ourselves in the market.

And I kind of referenced it upfront in my commentary that in a market like that, we don't even run into the traditional IT services and BPO companies. We run into other SaaS players who have a similar platform. So, there is minimal human touch, you will see this playing out this quarter as well as the next quarter as well that as we add revenue, some of that revenue may not have a direct correlation to headcount.

**Vibhor Singhal:** Just one last follow-up on the second question So, you are saying that while it would be difficult to give a ceiling to the offshoring number, but even from current levels, we have ample scope to take that number high. Is that understanding correct?

**Ritesh Idnani:** Yes, absolutely. That's correct.

**Moderator:** Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Ritesh Idnani for closing comments.

**Ritesh Idnani:** Thank you for joining the call and for all of your questions. I just want to close with a few final points. We remain laser focused on leveraging our strong foundation to gain from market opportunities that are caused by the ongoing macro and technology shifts.

We have started FY25 with strong revenue growth. Our revamped sales engine is working well, which is reflected in our strong deal wins as well as deal pipeline in Q1. That has also given us confidence to raise our FY25 revenue growth guidance to 11.5% to 13.5%. Our leadership rebuild is also on track. Our ability to attract top quality talent

is yet another validation of both our core strengths, our revamped go-to-market strategy and our ability to build a resilient, durable business with industry-leading growth.

Overall, I am satisfied with our progress, and we are optimistic about realizing our long-term growth aspirations of achieving \$1 billion revenue run rate business by Q4 of FY26 while continuing to expand margins. That's all from our side and we look forward to interacting with you again in the next quarter call. Thank you.

**Moderator:**

On behalf of Firstsource Solutions Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.