

**Recent acquisition ARSI will significantly Boucher the FSL position in the market going ahead**

**CMP: INR 153**

**Rating: Accumulate**

**Target Price: 174**

**Stock Info**

BSE	532809
NSE	FSL
Bloomberg	FSOL:IN
Reuters	FISO.BO
Sector	IT Enabled Services
Face Value (INR)	10
Equity Capital (INR Cr)	696
Mkt Cap (INR Cr)	10,656
52w H/L (INR)	243/93
Avg Yearly Vol (in 000')	5,728

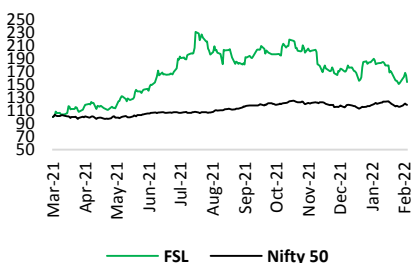
**Shareholding Pattern %**

(As on December, 2021)

Promoters	53.66
FII	9.60
DII	14.78
Public & Others	21.96

Stock Performance (%)	1m	3m	12m
FSL	-17.7	-23.7	56.9
Nifty 50	-1.62	-2.24	17.5

**FSL Vs Nifty 50**



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- Firstsource Solutions Ltd (FSL) Decent set of Nos, in-line with the estimates.FSL has reported consolidated revenue of INR 1464 Cr, +7.2% YoY/2.5% QoQ in Q3FY22 against our estimate of INR 1434 Cr. Driven by the BFS and Healthcare segment.
- BFS business added 5 new clients to its roster, expanding further into servicing and quality control in the Mortgage business and BNPL in the Collections business.
- The Healthcare business witnessed strong traction in telehealth capabilities, securing one new client in Q3FY22.
- Consolidated EBIT stood at INR 176 Cr, up by 10.8% YoY/-1.6% QoQ against our estimate of INR 176 Cr.
- On the margins front, the EBIT margin expanded by 39bps YoY/ 50bps QoQ to 12% against our estimate of 12.2%.Consolidated PAT stood at INR 135 Cr, up by 11.9% YoY/0.3% QoQ against our estimate of INR 132 Cr.
- The company headcount stood at 27,398 in Q3FY22.The company board declared an interim dividend of INR 3.5 per share.
- Absenteeism: During omicron, cases rise, the company saw higher absenteeism even in the work from home duration.
- Healthcare segment: This segment grew by 28.4% YoY and 26.6% in cc term during Q3FY22.The pipeline remains strong especially in digital and the more focus toward the execution. Communications, Media, and Technology (CMT) secured 3 new clients and expanded into newer capabilities within the broader fintech segments.

**Valuations**

At a CMP of INR 153, FSL is currently trading at a PE of 14.1x to its FY24E EPS of INR 10.8. The company reiterated its revenue guidance range of 14-14.5% in FY22, cut downgrade from its earlier guidance of 14.5-15.5%. Collection business to rise and starts to go Pre-Covid level. Also recently the company has acquired American Recovery Services, Inc (ARSI). We believe ARSI will significantly Boucher the FSL position in the market going ahead. The pipeline remains strong especially in digital and the more focus toward the execution. We value FSL at a PE of 16x to its FY24E EPS of INR 10.8, which yields a target price of INR 174 per share. Accordingly, we recommend a Accumulate rating on the shares of FSL.

**FSL is a subsidiary of RPSG Venture, where in controls 53.72% stake and is also under our coverage with the target Price of INR 2,903.**

Key Financial (In INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Sales	4,099	5,078	5,890	6,774	7,451
EBIT	444	5,293	6,334	7,487	8,721
PAT	340	362	555	671	755
EBITM (%)	10.8%	11.8%	12.3%	12.7%	12.8%
PE (x)	34.6	28.8	19.2	15.9	14.1
EPS	4.9	5.3	8.0	9.6	10.8

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q3FY22 - Quarterly Performance (Consolidated)

Particulars (in INR Cr)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
<b>Revenue (CC Terms) (Mn USD)</b>	<b>195.4</b>	<b>193.0</b>	<b>185</b>	<b>1.2%</b>	<b>5.6%</b>
<b>Net Revenue</b>	1,464	1,429	1,365	<b>2.5%</b>	<b>7.2%</b>
Employee cost	968	973	950	<b>-0.5%</b>	<b>1.8%</b>
Other Expenses	258	217	205	<b>19.0%</b>	<b>26.2%</b>
<b>EBITDA</b>	<b>238</b>	<b>239</b>	<b>210</b>	<b>-0.4%</b>	<b>13.1%</b>
<i>EBITDA margin %</i>	<i>16.3%</i>	<i>16.7%</i>	<i>15.4%</i>	<i>-46bps</i>	<i>85bps</i>
Depreciation	62	60	51	<b>3.4%</b>	<b>20.2%</b>
EBIT	176	179	159	<b>-1.6%</b>	<b>10.8%</b>
<i>EBIT margin %</i>	<i>12.0%</i>	<i>12.5%</i>	<i>11.6%</i>	<i>-50bps</i>	<i>39bps</i>
Other Income	0	1	1	<b>-70.0%</b>	<b>-82.4%</b>
Finance costs	15	16	13	<b>-2.6%</b>	<b>18.9%</b>
<b>PBT</b>	<b>161</b>	<b>164</b>	<b>148</b>	<b>-1.8%</b>	<b>9.3%</b>
Tax Expense	26	29	27	<b>-11.8%</b>	<b>-2.4%</b>
Effective tax rate %	16.1%	17.9%	18.0%	<i>-181bps</i>	<i>-193bps</i>
<b>PAT</b>	<b>135</b>	<b>135</b>	<b>121</b>	<b>0.3%</b>	<b>11.9%</b>
MI & Associates					
<b>Consolidated PAT</b>	<b>135</b>	<b>135</b>	<b>121</b>	<b>0.3%</b>	<b>11.9%</b>
Exceptional item	-0	-0	-0		
<b>Reported PAT</b>	<b>135</b>	<b>135</b>	<b>121</b>	<b>0.3%</b>	<b>11.9%</b>
<i>PAT margin %</i>	<i>9.3%</i>	<i>9.5%</i>	<i>8.9%</i>	<i>-20bps</i>	<i>39bps</i>
<b>EPS (INR)</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>-2.0%</b>	<b>11.8%</b>

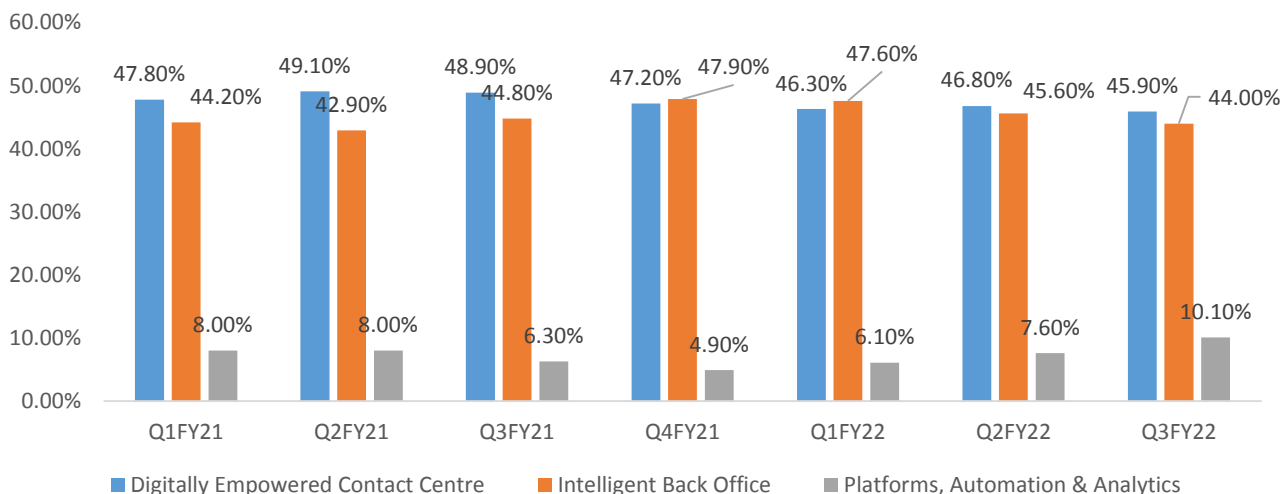
Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

**Q3FY22 Conference call highlights**

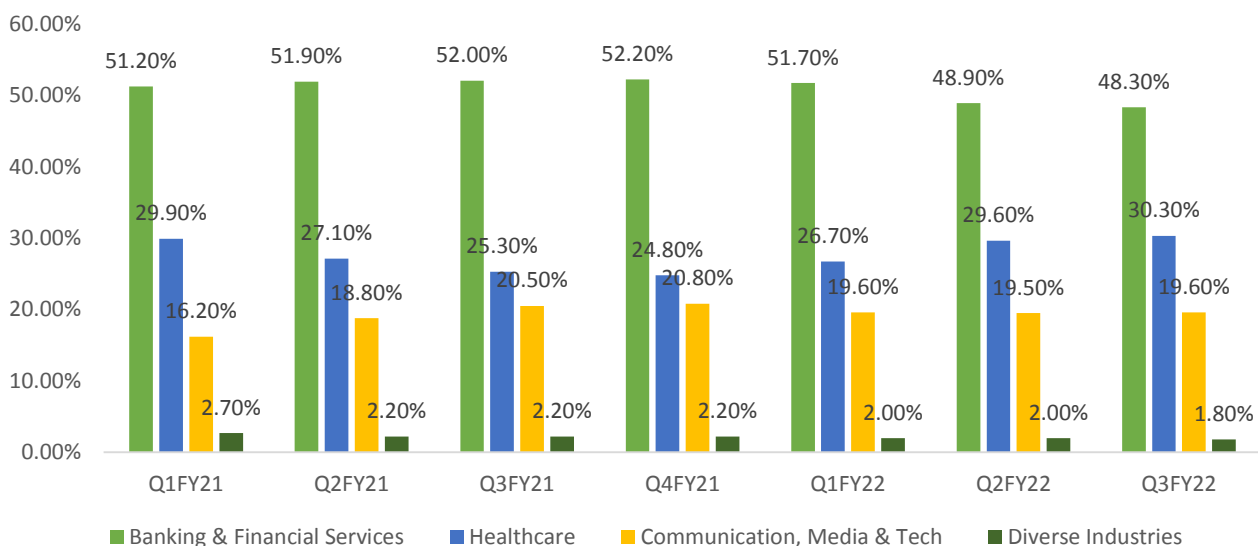
- Lowered the revenue growth guidance to 14-14.5% including the acquisition of 4% and 10-10.5% is organic growth but the company remains confident strategically on the right track.
- Quantum of interest rate hike and more aggressive tempering of Mortgage-backed securities purchase by the federal reserve is leading to sharp than anticipation decline in Mortgage model considering this factor and challenges.
- Margin in the range of 11.8% to 12% modestly impacted by the talent side challenges and recent acquisition.
- **Segment:** The BFS flat QoQ shrunk 2% YoY. On the Mortgage business due to interest rate volatility and feds, commentary on inflation and slight interest rate increases in CY22 led to a sharper than anticipated decline in the originated market.
- 30 years Mortgage is high as pre-Covid level and risen sharply as compare to Nov-Dec.
- The client is refinancing their capacity led by the higher impact on the onshore than offshore.
- Service segment remain solid and continue to expand servicing capability & offerings.
- The company increase its focus to increase the digital capability to cost efficiency to Mortgage clients. Added 3 new clients in servicing and originated during Q3FY22.
- The company launches a new platform to the market this version reduces the backlog of the closed files and identifies gaps much faster.
- The integration of stone hills progressing as per the plan and excited to take their capability to the existing client.
- **Collection:** Credit card spending continues to rise and starts to go Pre-Covid level.
- **Acquisition:** The company has completed the acquisition of American Recovery Services, Inc. – the company believes ARSI will significantly Boucher the FSL position in the market.
- The fundamental of the economy remains strong and will see good growth in the collection business and the company has added the 2 new clients in this. Including one in a fintech company.

Key Financials

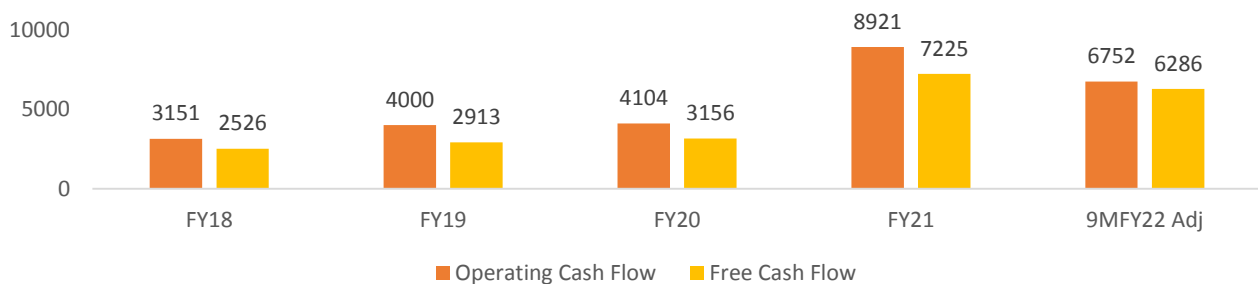
Revenue Split by Service line



Revenue Split by Verticals



Cash Flow



Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Key Financials

### Income Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenues</b>	4,099	5,078	5,890	6,774	7,451
<i>Change (%)</i>	7.1%	23.9%	16.0%	15.0%	10.0%
Employee costs	2,774	3,467	3,994	4,572	5,067
Other expenses	696	807	942	1,097	1,185
<b>Total Expenses</b>	<b>3,470</b>	<b>4,274</b>	<b>4,936</b>	<b>5,670</b>	<b>6,252</b>
<b>EBITDA</b>	<b>629</b>	<b>804</b>	<b>954</b>	<b>1,104</b>	<b>1,200</b>
<b>EBITDA Margin</b>	<b>15.34%</b>	<b>15.84%</b>	<b>16.20%</b>	<b>16.30%</b>	<b>16.10%</b>
Depreciation	185	206	232	246	243
<b>EBIT</b>	<b>444</b>	<b>598</b>	<b>723</b>	<b>858</b>	<b>956</b>
<b>EBIT Margin</b>	<b>10.83%</b>	<b>11.77%</b>	<b>12.27%</b>	<b>12.67%</b>	<b>12.83%</b>
Interest	58	52	47	42	37
Other Income	9	1	1	2	2
<b>PBT</b>	<b>394</b>	<b>547</b>	<b>677</b>	<b>818</b>	<b>921</b>
Exceptional Items	0	115	0	0	0
<b>PBT after exceptional Items</b>	<b>394</b>	<b>432</b>	<b>677</b>	<b>818</b>	<b>921</b>
Tax	55	70	122	147	166
<i>Rate (%)</i>	13.8%	16.2%	18.0%	18.0%	18.0%
<b>PAT</b>	<b>340</b>	<b>362</b>	<b>555</b>	<b>671</b>	<b>755</b>
<i>y-o-y</i>	0	0	0	0	0
<b>Consolidated PAT</b>	<b>340</b>	<b>362</b>	<b>555</b>	<b>671</b>	<b>755</b>
<i>Change (%)</i>	-10.1%	6.5%	53.4%	20.8%	12.6%

### Balance Sheet (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of Funds</b>					
Share Capital	694	696	696	696	696
Reserves & Surplus	2,072	2,103	2,449	2,911	3,457
Non controlling interest	1	1	1	1	1
<b>Total Equity</b>	<b>2,766</b>	<b>2,800</b>	<b>3,146</b>	<b>3,608</b>	<b>4,154</b>
<b>Loan Funds</b>	<b>837</b>	<b>521</b>	<b>471</b>	<b>421</b>	<b>371</b>
Deferred Tax Liability (Net)	73	47	47	47	47
<b>Total Liability</b>	<b>4,587</b>	<b>4,830</b>	<b>5,008</b>	<b>5,444</b>	<b>5,959</b>
<b>Application of Funds</b>					
Gross Block	769	897	1,023	1,125	1,237
Less: Depreciation	628	662	741	843	966
Net Block	141	235	281	282	271
CWIP	0	0	0	0	0
Financial Assets	673	586	771	1,350	1,996
Investments	0	83	83	83	83
<b>Sundry debtors</b>	<b>557</b>	<b>577</b>	<b>662</b>	<b>761</b>	<b>837</b>
Cash and bank	191	137	237	717	1,287
Other Current Assets	141	153	153	153	153
Total Current assets	1,104	1,231	1,416	1,995	2,641
Total Current liabilities	724	1,217	1,232	1,269	1,316
Total Non-Current assets	<b>3,483</b>	<b>3,598</b>	<b>3,592</b>	<b>3,449</b>	<b>3,318</b>
<b>Capital Employed</b>	<b>4,587</b>	<b>4,830</b>	<b>5,008</b>	<b>5,444</b>	<b>5,959</b>

### Key Ratios

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per share (Rs)</b>					
EPS	4.9	5.3	8.0	9.6	10.8
BVPS	40	40	45	52	60
<b>Valuation (x)</b>					
P/E	34.6	28.8	19.2	15.9	14.1
P/BV	4.3	3.8	3.4	3.0	2.6
EV/EBITDA	19.7	13.7	11.4	9.4	8.1
<b>Return ratio (%)</b>					
EBITDA Margin	15.3%	15.8%	16.2%	16.3%	16.1%
EBIT Margin	10.8%	11.8%	12.3%	12.7%	12.8%
PAT Margin	8.3%	7.1%	9.4%	9.9%	10.1%
ROE	12.3%	12.9%	17.6%	18.6%	18.2%
ROCE	9.7%	12.4%	14.4%	15.8%	16.0%
<b>Leverage Ratio (%)</b>					
Total D/E	0.3	0.2	0.1	0.1	0.1
<b>Turnover Ratios</b>					
Asset Turnover (x)	3.7	4.1	4.2	3.4	2.8
Receivable Days	42	41	41	41	41
Payable days	8	13	10	10	10

### Cash Flow Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>PBT</b>	<b>394</b>	<b>432</b>	<b>677</b>	<b>818</b>	<b>921</b>
Cash From Operating Activities	464	1,045	753	1,031	1,144
Tax	54	70	122	147	166
Net Cash From Operations	410	976	631	883	978
<b>Capex</b>	<b>-95</b>	<b>-173</b>	<b>-126</b>	<b>-102</b>	<b>-112</b>
Cash From Investing	14	-350	-226	-102	-112
Borrowings	253	-267	-50	-50	-50
<b>Finance cost paid</b>	<b>-58</b>	<b>-51</b>	<b>-47</b>	<b>-42</b>	<b>-37</b>
Cash From Financing	-277	-689	-306	-301	-296
<b>Net Increase/ Decrease in Cash</b>	<b>148</b>	<b>-63</b>	<b>100</b>	<b>480</b>	<b>570</b>
<b>Cash at the beginning of the year</b>	<b>47</b>	<b>191</b>	<b>137</b>	<b>237</b>	<b>717</b>
Cash at the end of the year	191	137	237	717	1,287

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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