

**Strong deal wins; Upward revision in guidance**

**CMP: INR 272**

**Rating: Buy**

**Target Price: INR 333**

**Stock Info**

BSE	532809
NSE	FSL
Bloomberg	FSOL:IN
Reuters	FISO.BO
Sector	IT Enabled Services
Face Value (INR)	10
Equity Capital (INR Cr)	697
Mkt Cap (INR Cr)	18,552
52w H/L (INR)	269/141
Avg Yearly Vol (in 000')	161

**Shareholding Pattern %**

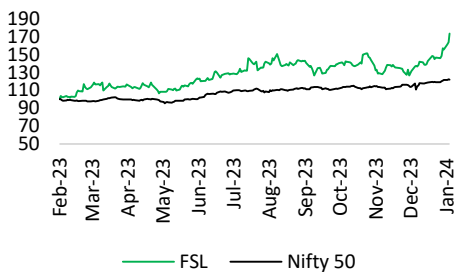
(As on March, 2024)

Promoters	53.66
Public & Others	44.11

**Stock Performance (%)**

	1m	3m	12m
FSL	2.9	4.2	76.3
Nifty	0.18	2.85	24.2

**FSL Vs Nifty**



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Firstsource Solutions Ltd (FSOL) in Q1FY25, Good set of numbers; FY25 constant currency revenue growth guidance raised to 11.5-13.5%. The company reported revenue at INR 1791 Cr (US\$ 215 mn above the estimate of US \$ 205 mn ), y/y growth of 7.2% QoQ/+17.1% YoY in INR term against our estimate of INR 1,710 Cr. EBIT Margin at INR 197 Cr above our estimate of INR 188 Cr. Margin at 11% in line with our estimate of 11% led by cost management and strong pipeline. PAT at INR 135 Cr against our estimate of INR 139 Cr. EPS of INR 1.97 vs of INR 1.94 in Q4FY24.

**Synergy playing out well with QBSS:** The QBSS acquisition contributed 2% to overall revenues. The company secured the first joint deal win in Q1, and the synergies helped them close an additional two transactions in the Q1 of integration. The company added two new logos in this vertical, one each in the payer and provider segments. Overall, expect growth to remain strong in this vertical, driven by the payer segment.

**Shift specific process from Onshore to offshore:** With top client may pose a near-term challenge, company anticipate strong growth in the overall vertical due to continued ramp-ups with other clients and a healthy deal pipeline. Company diverse vertical, primarily composed of utilities and energy, grew 34%YoY in CC in Q1. However, sequentially, revenues in this vertical declined by 3% QoQ due to seasonally lower volumes in one large account, but company expect recovery in Q2.

**Strong growth in Healthcare led by ramp up in deal wins:** Expect sequentially improving growth in this vertical in FY25. In healthcare, Q1 saw a 15% QoQ/26% YoY revenue growth in CC, driven by ramp-ups in recent deal wins, especially in the payer segment. Rising Medicare utilization in the U.S., weaker payment rates, and high medical costs are pressuring healthcare insurers' margins, leading to transformative initiatives to optimize cost structures. Two large deal wins in Q1 and a strong pipeline of potentially large deals suggest continued growth momentum in FY25. The provider business has remained stable.

**Valuations**

FY25 constant currency revenue growth guidance raised to 11.5-13.5% from 10-13%. Aspiring to reach an EBIT margin level of 14%-15% over the next 3-5 years. Optimistic about achieving the \$1 bn revenue milestone by FY26. The company aims to improve margins by 50-75 bps annually over the medium term. We anticipate that robust execution and securing deals with both current and new clients will drive growth momentum, while closely monitoring the Mortgage and Provider sectors for potential acceleration, which is crucial for sustained robust growth. We expect FSL Revenue/EBITDA/PAT to grow at a CAGR of 13%/~17%/21.7%, respectively, over FY24-27E. **We value FSL at a PE of 25x to its FY27e EPS of INR 13.3, which yields a target price of INR 333 per share (earlier target price; of INR 238 per share). We upgrade our rating to Buy from Accumulate earlier on the stock.**

**Exhibit 1 Financial Performance**

Particular	FY23	FY24	FY25E	FY26E	FY27E
Sales	6,022	6,336	7,266	8,159	9,312
EBITDA	827	956	1,120	1,305	1,527
EBITDA Margin	13.7%	15.1%	15.4%	16.0%	16.40%
Reported PAT	514	515	647	770	928
PE (x)	37.2	37.1	29.3	24.6	20.4
EPS	7.3	7.3	9.3	11.0	13.3

Source: Arihant Research, Company Filings

**Exhibit 2: Quarterly Performance (Consolidated)**

<b>Consolidated (in INR Cr)</b>	<b>Q1FY25</b>	<b>Q4FY24</b>	<b>Q1FY24</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
Revenue (Mn USD)	215	201	186	7.0%	15.6%
Net Revenue	1,791	1,670	1,529	7.2%	17.1%
Employee cost	1,127	1,056	924	6.7%	22.0%
Other Expenses	394	364	365	8.3%	8.0%
EBITDA	270	250	240	7.8%	12.4%
EBITDA margin %	15.1%	15.0%	15.7%	8bps	-64bps
Depreciation	73	67	61	8.2%	18.9%
EBIT	197.0	183.0	178.9	7.7%	10.1%
EBIT margin %	11.0%	11.0%	11.7%	4bps	-70bps
Other Income	2	3	2	-34.7%	6.1%
Finance costs	32	27	25	19.1%	24.6%
PBT	167.3	159.3	155.3	5.0%	7.7%
Exceptional item	-	-	-		
PBT and share net profit	167.256	159.290	155	5.0%	7.7%
Tax Expense	32	26	29	24.1%	9.2%
Effective tax rate %	19.1%	16.2%	18.9%	295bps	26bps
PAT	135.2	133.5	126.0	1.3%	7.4%
Non-controlling intrest	-	-	-0		
Consolidated PAT	135.249	133.502	125.982	1.3%	7.4%
Reported PAT	135.25	133.50	125.98	1.3%	7.4%
Non - controlling interest	-0.00				
PAT	135.25	133.50	125.98	1.3%	7.4%
PAT margin %	7.6%	8.0%	8.2%	-44bps	-69bps
EPS (INR)	1.97	1.94	1.85	1.5%	6.5%
<b>Consolidated (in INR Cr)</b>	<b>Q1FY25</b>	<b>Q4FY24</b>	<b>Q1FY24</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
Banking and Financial Services	649	623	623	4.1%	4.0%
Healthcare	637	550	498	15.9%	28.0%
Communication, Media and Technology	398	393	332	1.1%	19.6%
Diverse Industries	101	103	73	-2.7%	37.2%

Source: Arihant Research, Company Filings

## Firstsource Solutions Ltd - Q1FY25 Concall Highlights

- The QBSS acquisition contributed 2% to overall revenues. Company signed 3 large strategic deals in Q1, expected to ramp up in the coming quarter.
- BFS grew 4% QoQ and 2.2% YoY in constant currency, with robust growth in a typically quiet quarter, driven by diversification and strong traction with fintech players. Sequential improvement is expected for the rest of FY25.
- CMT remained flat QoQ in constant currency, but is seeing healthy momentum in telecom and media, with a good pipeline and large deals in advanced stages. Engagement with ETS in edtech is scaling up. An onshore to offshore shift with the top client will impact near-term revenues, but growth is expected from other clients and a healthy pipeline.
- Healthcare grew 15% QoQ and 26% YoY in constant currency, with deal ramp-ups, particularly in the payer segment. A strong deal pipeline suggests continued growth momentum in FY25. The provider business remained stable, and the first joint deal post-QBSS acquisition was completed in Q1. The healthcare vertical is expected to grow above the company average in FY25, driven by broad-based growth in the payer segment.
- Margins have remained stable over the past 4 quarters due to cost optimization.
- Strong Q1FY25 exit deal pipeline.
- Added 10 new logos during the quarter.
- Diverse declined 3% QoQ in constant currency due to seasonally lower volumes in a large account, but is expected to recover in Q2.
- Geography: Europe is expected to grow in H2FY25 based on the current pipeline. The US is expected to see broad-based growth across verticals.
- FY25 revenue growth guidance was revised upwards to 11.5%-13.5% YoY in constant currency, from the previous 10%-13%. EBIT margin guidance remains unchanged.
- The company's wage revision cycle will occur in Q2 instead of Q3.
- Broad-based growth across verticals, geographies, and capabilities is expected.
- In Q1, FSL completed over 55 POCs and 8+ co-pilots in production with GenAI.
- Met the target of 3 large deals per quarter in Q1.
- The company continues to gain new work from large clients in the CMT vertical, with a robust pipeline in telecom, digital media, and edtech, expecting broad-based growth.
- The company moving towards a higher offshoring mix.

Operating Metrics	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Revenue by Vertical</b>									
Banking & Financial Services	46.30%	43.40%	41.80%	40.30%	40.80%	40.80%	38.30%	37.30%	36.40%
Healthcare	32.10%	34.50%	34.20%	33.20%	32.60%	32.70%	33.50%	32.90%	35.70%
Communications Media & Tech	20.20%	20.20%	21.60%	22.30%	21.80%	21.20%	22.50%	23.60%	22.30%
Diverse Industries	1.40%	1.90%	2.40%	4.20%	4.80%	5.30%	5.70%	6.20%	5.60%
<b>Revenue by Geography</b>									
US	68.40%	67.20%	64.90%	63.30%	63.50%	65.10%	65.40%	65.00%	68.20%
Europe, Middle East, and Africa	30.10%	31.30%	34.10%	36.30%	36.40%	34.80%	34.50%	34.90%	31.80%
ROW	1.50%	1.50%	1.00%	0.40%	0.10%	0.10%	0.10%	0.10%	0.00%
<b>Revenue by Delivery</b>									
Offshore	27.40%	25.90%	25.10%	24.60%	25.60%	26.70%	30.30%	31.40%	35.00%
Onshore	72.60%	74.10%	74.90%	75.40%	74.40%	73.30%	69.70%	68.60%	65.00%
<b>Top Clients Revenue</b>									
Top 5 clients (share of total revenues)	36.40%	36.60%	38.50%	37.40%	37.20%	35.00%	35.80%	36.70%	34.60%
Top 10 clients (share of total revenues)	50.00%	50.60%	53.60%	53.60%	52.70%	51.30%	52.00%	52.60%	51.50%
<b>Other Metrics</b>									
Total employees (end of period)	25234	23932	23627	23018	22384	23953	25947	27940	29231
Net Addition	-1323	-1302	-305	-609	-634	1569	1994	1993	1291
Attrition (TTM)	48.60%	48.10%	45.50%	43.30%	41.70%	39.80%	37.70%	35.40%	32.00%

Source: Arian Research, Company Filings

## Key Financials

Income Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Revenue USD term</b>	<b>765.0</b>	<b>870.1</b>	<b>969.0</b>	<b>1102.0</b>
Change (%)	1.2%	13.7%	11.4%	13.7%
<b>Revenues</b>	<b>6,336</b>	<b>7,266</b>	<b>8,159</b>	<b>9,312</b>
Change (%)	5.2%	14.7%	12.3%	14.1%
Employee costs	3,909	4,657	5,181	5,876
Other expenses	1,470	1,488	1,673	1,909
<b>Total Expenses</b>	<b>5,380</b>	<b>6,145</b>	<b>6,854</b>	<b>7,785</b>
<b>EBITDA</b>	<b>956</b>	<b>1,120</b>	<b>1,305</b>	<b>1,527</b>
<b>EBIDTA Margin</b>	<b>15.09%</b>	<b>15.42%</b>	<b>16.00%</b>	<b>16.40%</b>
Depreciation	260	239	286	336
<b>EBIT</b>	<b>696</b>	<b>881</b>	<b>1019</b>	<b>1191</b>
<b>EBIT Margin</b>	<b>10.99%</b>	<b>12.13%</b>	<b>12.49%</b>	<b>12.79%</b>
Interest	103	105	102	101
Other Income	37	12	22	42
<b>PBT</b>	<b>630</b>	<b>789</b>	<b>939</b>	<b>1,131</b>
Exceptional Items	-	-	-	-
<b>PBT after exceptional Items</b>	<b>630</b>	<b>789</b>	<b>939</b>	<b>1,131</b>
Tax	115	142	169	204
Rate (%)	18.3%	18.0%	18.0%	18.0%
<b>PAT</b>	<b>515</b>	<b>647</b>	<b>770</b>	<b>928</b>
<b>Margin</b>	<b>8%</b>	<b>9%</b>	<b>9%</b>	<b>10%</b>
<b>Consolidated PAT</b>	<b>515</b>	<b>647</b>	<b>770</b>	<b>928</b>
Change (%)	0.2%	25.7%	19.0%	20.5%

Balance Sheet (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>				
Share Capital	697	697	697	697
Reserves & Surplus	3,003	3,406	3,932	4,616
Non controlling interest	0	0	0	0
<b>Total Equity</b>	<b>3,701</b>	<b>4,104</b>	<b>4,629</b>	<b>5,313</b>
<b>Loan Funds</b>	<b>812</b>	<b>873</b>	<b>853</b>	<b>843</b>
Deferred Tax Liability (Net)	147	147	147	147
<b>Total Liability</b>	<b>6,083</b>	<b>6,549</b>	<b>7,046</b>	<b>7,643</b>
<b>Application of Funds</b>				
Gross Block	1,221	1,286	1,586	1,886
Less: Depreciation	1,027	1,194	1,432	1,734
Net Block	194	92	154	152
CWIP	17	17	17	17
Financial Assets	1,488	2,374	2,744	3,264
Investments	30	30	30	30
<b>Sundry debtors</b>	<b>1,161</b>	<b>1,161</b>	<b>1,161</b>	<b>1,161</b>
Cash and bank	188	1,074	1,444	1,964
Other Current Assets	149	149	149	149
Total Current assets	1,537	2,423	2,793	3,313
Total Current liabilities	833	835	857	881
Total Non-Current assets	<b>4,546</b>	<b>4,126</b>	<b>4,253</b>	<b>4,330</b>
<b>Capital Employed</b>	<b>6,083</b>	<b>6,549</b>	<b>7,046</b>	<b>7,643</b>

Cash Flow Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>PBT</b>	<b>630</b>	<b>789</b>	<b>939</b>	<b>1,131</b>
Cash From Operating Activities	717	1,133	1,289	1,447
Tax	72	142	169	204
Net Cash From Operations	645	991	1,127	1,265
<b>Capex</b>	<b>(85)</b>	<b>(66)</b>	<b>(300)</b>	<b>(300)</b>
Cash From Investing	(58)	(166)	(400)	(400)
Borrowings	(29)	(20)	(20)	(10)
<b>Finance cost paid</b>	<b>(101)</b>	<b>(105)</b>	<b>(102)</b>	<b>(101)</b>
Cash From Financing	(564)	73	(358)	(346)
<b>Net Increase/ Decrease in Cash</b>	<b>23</b>	<b>899</b>	<b>369</b>	<b>520</b>
<b>Cash at the beginning of the year</b>	<b>152</b>	<b>175</b>	<b>1,074</b>	<b>1,444</b>
Cash at the end of the year	175	1,074	1,444	1,964

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Per share (INR)</b>				
EPS	7.3	9.3	11.0	13.3
BVPS	53	59	66	76
<b>Valuation (x)</b>				
P/E	37.1	29.3	24.6	20.4
P/BV	5.1	4.6	4.1	3.6
EV/EBITDA	20.5	12.7	11.0	9.5
<b>Return ratio (%)</b>				
EBIDTA Margin	15.1%	15.4%	16.0%	16.4%
EBIT Margin	11.0%	12.1%	12.5%	12.8%
PAT Margin	8.1%	8.9%	9.4%	10.0%
ROE	13.9%	15.8%	16.6%	17.5%
ROCE	11.4%	13.5%	13.9%	14.0%
<b>Leverage Ratio (%)</b>				
Total D/E	0.2	0.2	0.2	0.2
<b>Turnover Ratios</b>				
Asset Turnover (x)	4.1	3.0	2.9	2.7
Receivable Days	63	58	53	48
Payable days	15	15	14	13

Source: Arianth Research, Company Filings

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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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