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CMP: INR 1218

Rating: Buy

Target Price: INR 2,631

Stock Info

BSE	542333
NSE	RPSGVENT
Bloomberg	CESCVIN
Reuters	CESV.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR Cr)	33.09
Mkt Cap (INR Cr)	4,020
52w H/L (INR)	1,357/510
Avg Daily Vol (in 000')	142

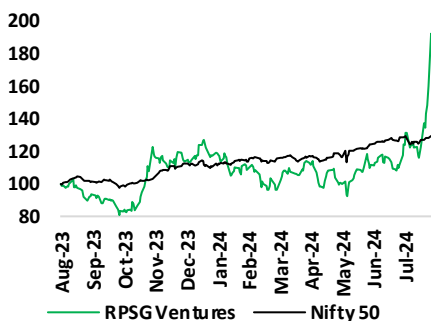
Shareholding Pattern %

(As on Sept, 2024)

Promoters	63.51
FII	4.84
DII	1.97
Public & Others	29.68

Stock Performance (%)	1m	3m	12m
RPSG	9.4	3.3	39.8
Nifty	51.6	87.3	88.1

RPSGVENT Vs Nifty



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RPSG Ventures has largely decent set of Nos due to IPL benefits in Q1FY25, Revenues came in at INR 2516.3 cr (above our estimate of 3%). It is up by 25% QoQ/+10% YoY driven by the decent growth in sports 274% QoQ due to IPL. However, the Gross Profit margin declined 54bps YoY/58bps QoQ due to raw material cost pressure. EBITDA registered a de-growth of (11% YoY)/(up by 145% QoQ) and stood at INR 552 cr (above estimate by 4%). EBITDA margin contracted by 499bps YoY/ up 1078 bps QoQ to 21.94% above our estimate of 20%. PAT stood at INR 270.5 cr against loss of INR 94.8 Cr.

Valuation & Outlook

RPSG Venture has demonstrated decent performance in Q1FY25 led by good traction in the Sports segments. The company is focusing on the scale-up of more FMCG segments due to good demand in the chips segment. Moreover, we anticipate further growth, driven by the better performance of Firstsource.

FSL is positioned to maintain its growth trajectory over the medium and long term led by efforts in client acquisition, structural transformations, advancements in GenAI, and initiatives aimed at improving margins. FY25 CC 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. Company aim to improve margins by 50-75 bps annually over the medium term.

We value FSL at a PE of 26x to its FY27e EPS of INR 13.3, which yields a target price of INR 346 per share (earlier target price Achieved; of INR 333 per share). We downgrade our rating to Hold from Buy earlier on the stock.

We expect RPSG Ventures to post Revenue/EBITDA growth of CAGR 11%/11.5% respectively over FY24-FY27E and value RPSG Ventures at PE of 1.0x to its FY27E EPS (Core) of INR 56.3. **We maintain our Buy rating on the stock and value it on SOTP valuation for a revised target price of INR 2,403 per share (Bear/Lower case scenario), INR 2,631 per share (Base case scenario), and INR 2,899 per share (Best case scenario).**

Particulars (INR Cr)	FY24	FY25E	FY26E	FY27E
Net Sales	7951	8750	9737	10848
EBITDA	1251	1382	1548	1736
Margin (%)	15.7%	15.8%	15.9%	16.0%
Net profit	-42	159	189	242
EPS (INR)	-14.3	48.1	57.0	73.1
ROE	4.42%	3.16%	3.52%	4.21%
ROCE	6.79%	6.85%	7.57%	8.34%

Source: Company, Arihant Research

SOTP - Valuations

Bear/Lower Case Scenario							
Listed Subsidiary	FY27E Sales (A)	P/Sales (x) (B)	Valuation (in Cr.) (A*B)	CMP	% Stake	Mcap	Value/share
FSL (FY27E EPS)	13.3	26x FY27E PE	346	309	54%	12998	
					Holdco Discount	60%	
					Valuation	5199	1571
Apricot Foods	460	1x	460	unlisted	70		139
Guiltfree Industries Limited	219	1.2x	263	unlisted	100		79
Herbolab India Private Limited	164	1.2x	197	unlisted	100		59
Quest Properties	169	1.2x	203	unlisted	100		61
ATK Mohun Bagan	125	1x	125	unlisted	80		38
RPSG Sports Private Limited	1321	1x	1321	unlisted	51		399
Value of Subsidiaries							2347
Core business		1x FY27E PE					56
					Intrinsic Value per share		2403
					CMP		1217
					Upside		97%
Base Case Scenario							
Listed Subsidiary	FY27E Sales (A)	P/Sales (x) (B)	Valuation (in Cr.) (A*B)	CMP	% Stake	Mcap	Value/share
FSL (EPS FY25E)	13.3	26x FY27E PE	346	309	54%	12998	
					Holdco Discount	60%	
					Valuation	5199	1571
Apricot Foods	460	1.5x	689	unlisted	70		208
Guiltfree Industries Limited	219	1.5x	329	unlisted	100		99
Herbolab India Private Limited	163.8	1.5x	246	unlisted	100		74
Quest Properties	169.0	2x	338	unlisted	100		102
ATK Mohun Bagan	124.6	1.2x	150	unlisted	80		45
RPSG Sports Private Limited	1320.9	1.2x	1585	unlisted	51		479
Value of Subsidiaries							2580
Core business		1x FY27E PE					52
					Intrinsic Value per share		2631
					CMP		1217
					Upside		116%
Best Case Scenario							
Listed Subsidiary	FY27E Sales (A)	P/Sales (x) (B)	Valuation (in Cr.) (A*B)	CMP	% Stake	Mcap	Value/share
FSL	13.3	26x FY27E PE	346	309	54%	12998	
					Holdco Discount	60%	
					Valuation	5199	1571
Apricot Foods	459.6	1.8x	827	unlisted	70		250
Guiltfree Industries Limited	219.0	1.8x	394	unlisted	100		119
Herbolab India Private Limited	163.8	2x	328	unlisted	100		99
Quest Properties	169.0	3x	507	unlisted	100		153
ATK Mohun Bagan	124.6	1.5x	187	unlisted	80		56
RPSG Sports Private Limited	1320.9	1.5x	1981	unlisted	51		599
Value of Subsidiaries							2848
Core business		1x FY27E PE					52
					Intrinsic Value per share		2899
					CMP		1218
					Upside		138%
Price as on 30th Aug 2024							

Source: Company, Arianth Research

Q1FY25 Performance of the company

INR in Cr.	Q1FY25	Q4FY24	Q1FY24	YoY	QoQ
Net Sales	2,516.3	2,020.0	2,296	10%	25%
Raw Material	86	75	59	45%	15%
Purchase of stock In trade	-	-	-		
(Increase)/Decrease in stock	1	6	7	-90%	-88%
COGS	86	81	67	30%	7%
GP	2,430	1,939	2,230	9%	25%
Gross Profit (%)	96.57%	95.99%	97.10%	-54bps	58bps
Employee Cost	1,181	1,124	959	23%	5%
Other Expenses	697	589	652	7%	18%
EBITDA	552	226	618	-11%	145%
EBITDA Margin (%)	21.94%	11.16%	26.93%	-499bps	1078bps
Depreciation	83	78	72	16%	7%
EBIT	469	148	547	-14%	217%
Other Income	8	8	5	71%	0%
Finance Cost	169	172	152	12%	-2%
PBT	308	(24)	398	-22%	-1380%
Share in net profit/(loss) of joint ventures and associate.	0	(8)	(2)		
Tax Expense	38	71	35	7%	-46%
Effective tax rate %	12.28%	-293.28%	8.91%	38%	-104%
PAT	270.5	(94.8)	362.4	-25%	-385%
Profit/(Loss) to Non-controlling	169	5	209		
PAT margin (%)	10.75%	-4.69%	15.78%	-503bps	1544bps
Consolidated PAT	101.9	(99.8)	153.0	-33%	-202%
EPS (INR)	30.8	(32.6)	51.8	-41%	-194%

Source: Company, Arianth Research

Management Concall KTAs

- FSL achieved 50% growth in the past six months.
- FMCG Valuation Increased from INR 500 cr last year to a target of INR 650 crore this year, Q1 showed promising results.
- Scale up plan is to focus on premium brands which is 80% of market.
- Too Yum has expanded to 400,000 outlets with a market potential of 2 mn which shows significant growth opportunity, Supply Strength has increased by 250,000 over the past two years.
- Herbo Lab rebranding efforts underway, launched a new website 360 and pipeline developments, Emphasis on Nutraceutical sector.
- Sports Team has limited impact and advertising, minimal financial contribution.
- Quest is performing well from only one mall, targeting 5% revenue growth from new brands.
- Luxury brand has fixed costs reviewed every three years, 15% rent premium with a 5% annual recovery.
- Too Yum target aims for INR 1,000 crore by FY27 and potential for exceeding this target.
- IPL target is seven years left to meet payment obligations.
- FSL Fundraising is progressing positively BPO Growth is 3x ARR increase with strong CAGR.
- Expanding into tech startups and innovative partnerships, securing major deals and planning investments in AI/ML.

RPSG Ventures Limited Financial (Consolidated financial)

Income Statement (INR Cr)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Revenues	7,166	7,951	8,750	9,737	10,848
Change (%)	7.4%	11.0%	10.0%	11.3%	11.4%
Cost of Goods Sold (COGS)	317	313	350	389	434
Gross Profit	6,850	7,638	8,400	9,347	10,414
Employee costs	4,017	4,100	4,882	5,414	6,032
Other expenses	2,030	2,287	2,135	2,385	2,647
Total Expenses	6,363	6,700	7,367	8,189	9,113
EBITDA	803	1,251	1,382	1,548	1,736
EBITDA Margin (%)	11.2%	15.7%	15.8%	15.9%	16.0%
Depreciation	305	302	436	474	515
EBIT	498	949	946	1075	1220
Interest	552	627	607	607	607
Other Income	142	56	58	62	66
PBT	88	378	398	530	679
Exceptional Items	-	-	-	-	-
PBT after exceptional Items	120	377	398	530	679
Tax	179	180	239	341	437
Rate (%)	149.1%	47.7%	60.0%	64.4%	64.4%
PAT	-59	197	159	189	242
Non-controlling interest	94	239.47	-	-	0
Consolidated PAT	-153	-42	159	189	242
Change (%)	-2.1%	-0.5%	1.8%	1.9%	2.2%

Key Ratios

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Per share (INR)					
EPS	-53.7	-14.3	48.1	57.0	73.1
BVPS	1358	1348	1522	1620	1735
Valuation (x)					
P/E	-22.9	-86.4	25.6	21.6	16.9
P/BV	0.9	0.9	0.8	0.8	0.7
Subsidiary Valuation	2243	2243	2243	2243	2243
EPS (Core EPS)	26.8	43.4	46.0	51.6	56.3
EV/EBITDA	7.2	5.3	4.1	3.5	2.9
Return ratio (%)					
EBITDA Margin	11.21%	15.73%	15.80%	15.90%	16.00%
PAT Margin	-2.13%	-0.53%	1.82%	1.94%	2.23%
ROE	-1.47%	4.42%	3.16%	3.52%	4.21%
ROCE	3.78%	6.79%	6.85%	7.57%	8.34%
Leverage Ratio (%)					
Total D/E	0.7	0.7	0.5	0.5	0.5
Turnover Ratios					
Asset Turnover (x)	3.2	2.9	2.9	2.8	2.7
Inventory Days	73	73	73	73	73
Receivable Days	53	53	53	53	53
Payable days	19	19	19	19	19

Source: Company, Arianth Research

Balance Sheet (INR Cr)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Share Capital	29.51	33.09	33.09	33.09	33.09
Reserves & Surplus	2,376	2,634	3,209	3,536	3,916
Non controlling interest	1,601	1,793	1,793	1,793	1,793
Total Equity	4,006	4,460	5,035	5,362	5,742
Loan Funds	2,639	3,268	2,637	2,637	2,637
Capital Employed	13,159	13,975	13,821	14,199	14,637
Application of Funds					
Gross Block	1,349	1,511	1,662	1,828	2,011
Less: Depreciation	687	740	803	873	949
Net Block	662	771	859	955	1,062
CWIP	7	23	23	23	23
Financial Assets	586	738	738	738	738
Investments	54	70	74	84	94
Inventories	64	69	70	78	86
Sundry debtors	1,109	1,340	1,281	1,425	1,588
Cash and bank	484	675	1,025	1,341	1,697
Other Current Assets	510	612	612	612	612
Total Current assets	2,231	2,740	3,031	3,499	4,028
Total Current liabilities	2,042	1,960	1,863	1,915	1,972
Total Non-Current assets	10,928	11,235	11,319	11,343	11,366
Capital Employed	13,159	13,975	14,350	14,842	15,394

Cash Flow Statement (INR Cr)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
PBT	120	377	398	530	679
Cash From Operating Activities	828	1,121	796	902	1,081
Tax	103	83	239	341	437
Net Cash From Operations	726	1,038	557	561	643
Capex	(83)	(112)	(336)	(373)	(415)
Cash From Investing	(717)	(1,136)	(346)	(383)	(425)
Borrowings	698	614.78	-	-	-
Finance cost paid	(181)	287.80	-	-	-
Cash From Financing	252	291	138	138	138
Net Increase/ Decrease in Cash	260	192	349	316	357
Cash at the beginning of the year	225	484	675	1,025	1,341
Cash at the end of the year	484	675	1,025	1,341	1,697

CMP: INR 194

Outlook : Positive

CESC is poised for strong growth with a clear strategy.

Increasing capacity from 3.2 GW to 3.8 GW.

significant investments in wind, solar, and green hydrogen projects.

Emphasizing efficiency, digital services, and sustainability.

Positioned to lead in the future of energy.

The company is also planning a 10 GW project, with significant investments in battery storage and other innovative technologies to support its long-term growth strategy.

CESC Investor Day Takeaway's

Financial Performance: CESC has demonstrated solid economic growth, with gross revenue reaching INR 4,918 crore, representing a 12.6% YoY increase. The EBITDA also saw a 6.5% YoY growth, standing at INR 1,115 crore, while PAT grew by 5.4% YoY to INR 388 crore in Q1FY25. The company anticipates continued growth, with demand expected to grow at a CAGR of 4% by FY27.

Expansion of Renewable Capacity: The company is focusing on expanding its capacity from 3.2 GW to 3.8 GW. This expansion is part of their broader strategy to increase renewable energy generation, with secured land connectivity facilitating this growth. The company is also making significant changes in its thermal operations to become future-ready.

Green Initiatives in Wind and Solar: The company has signed a framework agreement with **Inox Wind Ltd** for a 1.5 GW wind turbine project, which will be commissioned over the next 2-4 years. A similar agreement has been signed with **Suzlon Energy**. Additionally, CESC has acquired a 100% stake in Bhadla 3 SKP Green Ventures Pvt Ltd. for developing a 300 MW solar park in Rajasthan, with advanced land acquisition and CTU connectivity.

Investments in Renewables: They are making substantial investments in renewable energy, targeting up to 3GW of hybrid renewable projects under Purvah Green Power Private Limited. They have applied for CTU connectivity for 2,675 MW, which is expected to be granted by Q3 FY25. The company is also evaluating a pipeline of 3,975 MW of wind and solar sites for future development.

Green Hydrogen Initiatives: The company is venturing into green hydrogen, with a project expected to produce 10,500 MT per annum within the next three years under CESC Projects Limited. The company has also shortlisted land for another green hydrogen project, indicating its commitment to this emerging sector.

Operational Efficiency and Customer Engagement: The company is maintaining optimal inventory levels and is optimistic about future tie-ups, particularly with Railways. Customer engagement is also a key focus, with 80% of customers now online and over 85% of transactions by value occurring digitally. This shift is part of CESC's broader strategy to optimize operations and enhance customer experience.

Commercial Operations and Future Growth: They continue to report strong growth in power demand, with the Kolkata Distribution business witnessing an 8% YoY increase in demand during Q1 FY25. The Chandrapur TPP also reported a strong financial performance, with a PLF of 93.5% during the quarter. The company is also planning to expand its battery storage capabilities and has executed the necessary agreements to support this growth.

Focus on ESG and Regulatory Compliance: They are actively engaging in Environmental, Social, and Governance (ESG) initiatives, with regulatory measures including a deferred tax of INR 500 crore for 2024. The company is also working on optimizing OEM costs and transforming its thermal operations to align with future sustainability goals.

Growth Projections and Strategic Planning: Looking forward, CESC plans to increase its capacity in Noida and Kolkata by 300 MW each. The company expects to generate an additional INR 500 to 600 crore per annum from Kolkata, with INR 200 crore as a fixed cost. With a pipeline of 3.8 GW under evaluation and 1 GW planned for the next year, CESC is well-positioned for future growth.

Commitment to Sustainability: The Company is committed to sustainability, with a focus on increasing renewable energy capacity and exploring new markets like green hydrogen.

CMP: INR 105

Outlook : Positive

Spencer's is working on improving profits by focusing on the most successful regions and cutting costs.

The company is doing well financially and seeing growth in high-end products.

They are set to keep growing and take advantage of new market opportunities.

The product Noodles added last month shows very high sales in crores.

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Spencer's Investor Day Takeaways

Financial Highlights: For the quarter, the company reported a revenue of INR 548 crore, with a Gross Margin of INR 112 crore, reflecting a margin of 20.5%, which is a YoY growth of 90 bps. The company saw significant improvements in its (EBITDA), which stood at INR 29 crore compared to INR 7 crore in the same quarter last year. The PBT showed a reduction in losses to INR 43 crore, an improvement from a loss of INR 64 crore in the previous year. Additionally, the company expanded its footprint by opening one new store in an existing cluster with a trading area of 13.3k sq. ft

Spencer's Retail Q1 Highlights: Spencer's Retail showed positive momentum in the first quarter with several operational improvements. The gross margin percentage increased by 75 bps, reaching 19.3%. This enhancement was supported by a continued focus on operational efficiencies, which led to an 11% reduction in operating costs. The company also added a new store during the quarter within an existing cluster, featuring a trading area of 13.3k sq. ft.

Nature's Basket Q1 Highlights: Nature's Basket delivered a robust YoY growth of 8% in Q1. The luxury grocery format, 'Artisan Pantry,' witnessed good traction across all stores, contributing significantly to the overall performance. The gross margin percentage saw an improvement of 98 bps, underscoring the company's strong performance in the luxury grocery segment.

Strategic Focus and Operational Enhancements: Spencer's continues to prioritize profitability improvements, focusing on key metrics such as margin enhancement, cost reductions, and driving Omni-channel growth. These efforts were reflected in the Q1 performance, where improvements in Operating EBITDA and the online business mix were driven by the Express Delivery value proposition in cities like Kolkata, Varanasi, and Lucknow. Nature's Basket's growth was further bolstered by the rollout of the new 'Artisan Pantry' formats, which contributed to a healthy 8% YoY business growth.

Strategic Decisions and Future Outlook: The Board of Directors, based on management's recommendations, has approved the ramping down of operations in the South and NCR regions for Spencer's. This strategic move is intended to allow the business to concentrate on expanding its core, profitable, and higher-growth geographies in the East and North, thus accelerating its journey toward profitability. The consolidated business, despite witnessing a YoY de-growth of 3.8% for Q1FY25, managed to enhance its gross margin by 90 bps to 20.5%.

CMP: INR 515**Rating: Buy****Target Price: INR 657**

Expanding into the movie business, focusing on recovering 70% of costs through TV and theatre releases, with the remaining 30% coming from music rights.

The company is expanding into regional language content, which often provides better profit margins. They are developing a pan-India catalog that includes local languages like Bhojpuri.

Experiencing strong growth, with a 23% CAGR in music and 20% in video content.

RPSG Investor Day Takeaway's

Saregama India appears to be in a strong position for future growth. The company is aggressively investing in new content, particularly in music and regional languages, with a target of acquiring 25-30% of all new music released in India. They expect their music and licensing business (including artist management) to grow by at least 26% YoY, with overall company revenue projected to grow at a CAGR of 23% over the next three years. Profit growth may lag behind revenue growth in the short term due to significant content investments, but this strategy is expected to pay off in the long run, potentially doubling their PBT in 3-3.5 years. The shift towards paid streaming models in the industry is expected to benefit Saregama significantly. With a strong focus on IP ownership, artist development, and adaptation to digital trends, Saregama is positioning itself to become one of India's leading and most profitable IP companies in the entertainment sector.

We expect Saregama's revenue, EBITDA, and PAT to grow at a CAGR of 30.07%, 32.88%, and 27.2%, respectively, over FY25-27E and arrive at a TP of INR 657 per share. Accordingly, we maintain a "BUY" rating on the stock.

The company has adapted quickly to changing industry dynamics, learning to evolve faster. The company now dominates not just with top hits, but with some of its biggest hits ever, showcasing greater market control. Their stronger position in OTT platform negotiations has resulted in eight songs surpassing 100 million views.

With 750 million smartphones and 22 million connected TVs, Saregama benefits from significant consumer engagement. They cover 70% of costs before release, and once average realization improves from 10 paise to 50 paise, revenue from platforms like Spotify and Swan streaming will increase.

Saregama holds a 30% from 18% market share and expects additional revenue of INR 3,000 cr, with a 50% share of the music label market. The shift to e-commerce with Caravan has eliminated previous losses, and Saregama's integration with IT and 1 mint pocket content, 3-minute YouTube videos continues to redefine the market, driving exponential growth in the coming years.

Some of Saregama's biggest recent hits include songs from "Bad news" and "Stree 2". The company has a long-standing presence in the market, with promoters who have been in the industry for over 20 years.

Focus is on both film music and non-film music, including artist-based music and artist management. They work with artists like Diljit Dosanjh, Raftaar and manage parody content as well. The company collaborates with major film industry figures like Karan Johar and Sanjay Leela Bhansali. They have upcoming projects with high-profile actors like Alia Bhatt.

Seeing success with remakes of old songs, which are providing additional revenue streams. In the last three years, new content has contributed 33% of revenue, reducing dependence on their catalog.

Saregama typically expects a 5-year payback period on their content investments. Their content selection process involves considering factors like genre, singer, composer, lyricist, and associated actors.

New music investments generally yield an IRR of about 26%. Once costs are fully charged off, margins can increase to around 90%. They expect marketing costs to decrease as their library grows.

The company generates revenue from various streaming platforms, with different revenue-sharing models. They also earn from music usage in advertisements and brand partnerships.

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Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	7,366	8,030	10,451	13,465	17,682
Net Sales	7,366	8,030	10,451	13,465	17,682
YoY (%)	26.86%	9.01%	30.16%	28.83%	31.32%
Adjusted COGS	2,250	2,320	3,233	4,097	5,326
YoY (%)	57.25%	3.11%	39.31%	26.74%	29.99%
Personnel/ Employee benefit expenses	750	932	1,216	1,553	2,021
Advertisement and sales promotion	775	760	981	1,251	1,624
Royalty expense	643	613	738	951	1,249
Manufacturing & Other Expenses	737	940	1,070	1,369	1,786
Total Expenditure	5,156	5,565	7,238	9,221	12,007
YoY (%)	18.09%	11.58%	30.35%	32.05%	33.72%
EBITDA	2,210	2,466	3,214	4,244	5,675
YoY (%)	18.09%	11.58%	30.35%	32.05%	33.72%
EBITDA Margin (%)	30.00%	30.70%	30.75%	31.52%	32.09%
Depreciation	208	362	470	656	923
% of Gross Block	5.38%	7.26%	7.41%	7.96%	8.44%
EBIT	2,002	2,104	2,744	3,587	4,752
EBIT Margin (%)	27.17%	26.20%	26.25%	26.64%	26.88%
Interest Expenses	57	32	31	29	28
Non-operating/ Other income	536	637	524	446	490
PBT	2,481	2,708	3,237	4,004	5,215
Tax-Total	630	732	853	1,073	1,359
Profit After Tax	1,850	1,976	2,384	2,930	3,855
PAT Margin	25.12%	24.60%	22.81%	21.76%	21.80%
Shares o/s/ paid up equity sh capital	193	193	193	193	193
Adj EPS	10	10	12	15	20
Dividend per share	3	4	5	5	6
Dividend payout (%)	31.26%	39.04%	36.39%	32.90%	27.51%
Retained earnings	1,272	1,204	1,517	1,966	2,795

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	193	193	193	193	193
Reserves & Surplus/ Other Equity	13,262	14,533	16,917	19,847	23,703
Networth	13,455	14,726	17,110	20,040	23,896
Unsecured Loans/ Borrowings/ Lease Liabilities	15	38	40	40	41
Other Liabilities	1,947	1,797	1,836	1,835	1,847
Total Liabilities	3,586	5,612	5,995	6,472	7,143
Total Funds Employed	17,041	20,338	23,104	26,513	31,038
Application of Funds					
Net Fixed Assets	3,418	7,478	5,331	6,747	8,713
Investments/ Notes/ Fair value measurement	3,491	1,817	2,234	2,763	3,437
Current assets	12,520	12,221	17,071	18,992	21,474
Inventory	1,643	2,393	2,811	3,563	4,631
Days	219	317	317	317	317
Debtors	1,480	1,587	1,991	2,570	3,374
Days	63	70	70	70	70
Other Current Assets	1,928	1,642	2,133	2,815	3,781
Cash and Cash equivalent	5,083	5,421	8,605	8,055	7,102
Current Liabilities/Provisions	3,080	2,969	3,164	3,479	3,953
Creditors / Trade Payables	703	934	1,049	1,264	1,633
Days	54	62	56	54	54
Liabilities	922	738	771	805	840
Net Current Assets	9,441	9,252	13,907	15,513	17,521
Total Asset	17,041	20,338	23,104	26,513	31,038
Total Capital Employed	7,600	11,086	9,197	11,000	13,517

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit After tax	2,481	2,708	3,237	4,004	5,215
Adjustments: Add					
Depreciation and amortisation	208	362	470	656	923
Interest adjustment	-479	-604	-493	-416	-462
Change in assets and liabilities	2,158	2,504	3,229	4,134	5,376
Inventories	-588	-750	-418	-752	-1,068
Trade receivables	-402	-108	-403	-579	-805
Trade payables	57	231	116	215	369
Other Liabilities and provisions	545	-184	63	66	70
Other Assets	-207	218	-304	-393	-517
Taxes	-135	116	-189	-332	-480
Net cash from operating activities	1,429	2,044	2,077	2,360	2,945
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-831	-4,422	1,677	-2,073	-2,889
Net Sale/(Purchase) of investments	4,373	1,211	-353	-459	-597
Others	-255	1,100	460	375	413
Net cash (used) in investing activities	3,286	-2,111	1,784	-2,156	-3,073
Interest expense	-39	88	-20	-24	-26
Dividend paid	-578	-771	-868	-964	-1,060
Other financing activities	-2,253	-1,001	2	5	8
Net cash (used) in financing activities	-2,870	406	-677	-754	-825
Closing Balance	5,083	5,421	8,605	8,055	7,102
FCF	1,155	1,650	223	1,109	1,278
Capex (% of sales)	14.11%	12.00%	10.00%	9.50%	9.00%

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.00	0.00	0.00	0.00	0.00
Net Debt / Equity	-0.38	-0.36	-0.50	-0.40	-0.30
Debt / EBITDA	0.00	0.02	0.01	0.01	0.01
Current Ratio	-2.30	-2.18	-2.66	-1.89	-1.24
DuPont Analysis					
Sales/Assets	0.43	0.39	0.45	0.51	0.57
Assets/Equity	1.27	1.38	1.35	1.32	1.30
RoE	13.75%	13.42%	13.93%	14.62%	16.13%
Per share ratios					
Reported EPS	9.60	10.25	12.37	15.20	20.00
Dividend per share	3.00	4.00	4.50	5.00	5.50
BV per share	69.78	76.37	88.74	103.94	123.93
Cash per Share	8.54	11.19	15.01	17.71	21.37
Revenue per Share	38.20	41.65	54.21	69.83	91.71
Profitability ratios					
Net Profit Margin (PAT/Net sales)	25.12%	24.60%	22.81%	21.76%	21.80%
Gross Profit / Net Sales	69.45%	71.10%	69.07%	69.57%	69.88%
EBITDA / Net Sales	30.00%	30.70%	30.75%	31.52%	32.09%
EBIT / Net Sales	27.17%	26.20%	26.25%	26.64%	26.88%
ROCE (%)	14.34%	12.11%	13.76%	15.58%	17.55%
Activity ratios					
Inventory Days	218.71	317.37	317.39	317.39	317.39
Debtor Days	63.37	69.71	69.52	69.66	69.66
Creditor Days	53.85	62.03	56.15	54.48	54.48
Leverage ratios					
Interest coverage	35.02	64.93	89.13	122.69	171.08
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	43.51	38.88	28.83	21.96	16.59
PE (x)	54.70	51.24	42.46	34.54	26.26
OCF/EBITDA (%)	64.67	82.89	64.62	55.62	51.89

CMP: INR 309

Rating: Hold

Target Price: INR 346

***BPO Growth CAGR and
3x ARR increase.***

***Opportunities,
expanding in tech
startups and innovative
partnerships***

***Three large deals
secured, expansion in
telecom and investments
in AI/ML planned.***

***Significant expansion in
the share of wallet.***

***Management expects
broad-based growth
across verticals,
geographies, and
capabilities in FY25E.***

***The collections business
is experiencing strong
traction with fintech
players.***

FSL Investor Day Takeaway's

FSL is positioned to maintain its growth trajectory over the medium and long term led by efforts in client acquisition, structural transformations, advancements in GenAI, and initiatives aimed at improving margins. FY25 CC 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. Company aim to improve margins by 50-75 bps annually over the medium term.

We value FSL at a PE of 26x to its FY27e EPS of INR 13.3, which yields a target price of INR 346 per share (earlier target price Achieved; of INR 333 per share). We downgrade our rating to Hold from Buy earlier on the stock.

FSL is poised for 2.5x growth from here, driven by value unlocks and straightforward strategies. The pipeline is set to expand from \$480 mn to \$1 bn milestone by FY26. They've achieved three large wins in Q1 FY25, surpassing their goal of two annual wins. The annual contract value has doubled to \$80 mn.

Pricing Strategy: The company will address low-margin accounts through renegotiation and restructuring, set competitive pricing for new deals, and continuously renegotiate post-win deals to enhance revenue and margins.

FSL is focusing on its top 50 accounts, which have grown from 2% market share to \$62 mn. They expect additional pricing adjustments, with 5% repricing requests from existing clients. Margins are projected to rise from 11% (Q1FY25) to 15%, driven by o raise the margin from 11% to 15%, the company will focus on achieving 1.5% improvement through operational efficiency, 1.5% in cost savings, and 1% from pricing adjustments.

The company is targeting 12% growth onshore and 20% offshore , with offshore work now making up 60% of their business, compared to 35% previously.

Attrition is being managed, and QBSS remains a strong, high-margin segment.

Customer Base: The company's revenue is heavily reliant on a small group of key customers, with 80% of income coming from this limited clientele. These relationships are long-term, typically lasting between 10 to 15 years. The company focuses on streamlining its operations and clarifying customer relationships to improve efficiency. Developing unique capabilities is crucial for differentiating itself from competitors and enhancing its market position.

Competitive Landscape: The market is characterized by intense competition, with several rivals and a substantial market share of 90-95%, reflecting a highly competitive environment.

Cross-Selling and Upscaling: The strategy involves identifying over 50 key accounts with growth potential and deploying dedicated market teams to enhance account penetration and growth opportunities.

Cutting-Edge Capabilities: By leveraging social media and platform innovations, the company aims to enhance its visibility and strengthen its market position.

AI/ML Integration & Gen AI: Utilizing AI and ML to modernize offerings, the company aims to generate new revenue streams and achieve a 6.6% QoQ growth with margins of 11-12%. Significant opportunities exist for revenue and margin growth through advancements in Gen AI and ML, which the company plans to explore.

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Key Financials

Income Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenue USD term	765.0	870.1	969.1	1102.3
Change (%)	1.2%	13.7%	11.4%	13.8%
Revenues	6,336	7,267	8,237	9,359
Change (%)	5.2%	14.7%	13.4%	13.6%
Employee costs	3,909	4,658	5,230	5,915
Other expenses	1,470	1,488	1,689	1,919
Total Expenses	5,380	6,146	6,919	7,833
EBITDA	956	1,121	1,318	1,525
EBIDTA Margin	15.09%	15.42%	16.00%	16.30%
Depreciation	260	239	286	336
EBIT	696	881	1032	1189
EBIT Margin	10.99%	12.13%	12.52%	12.71%
Interest	103	105	102	101
Other Income	37	12	22	42
PBT	630	789	951	1,130
Exceptional Items	-	-	-	-
PBT after exceptional Items	630	789	951	1,130
Tax	115	142	171	203
Rate (%)	18.3%	18.0%	18.0%	18.0%
PAT	515	647	780	926
Margin	8%	9%	9%	10%
Consolidated PAT	515	647	780	926
Change (%)	0.2%	25.7%	20.6%	18.8%

Cash Flow Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
PBT	630	789	951	1,130
Cash From Operating Activities	717	1,133	1,340	1,567
Tax	72	142	171	203
Net Cash From Operations	645	991	1,169	1,364
Capex	-85	-66	-300	-300
Cash From Investing	-58	-166	-400	-400
Borrowings	-29	-20	-20	-10
Finance cost paid	-101	-105	-102	-101
Cash From Financing	-564	73	-358	-346
Net Increase/ Decrease in Cash	23	898	411	618
Cash at the beginning of the year	152	175	1,073	1,485
Cash at the end of the year	175	1,073	1,485	2,103

Balance Sheet (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	697	697	697	697
Reserves & Surplus	3,003	3,406	3,942	4,625
Non controlling interest	0	0	0	0
Total Equity	3,701	4,104	4,640	5,322
Loan Funds	812	873	853	843
Defered Tax Liability (Net)	147	147	147	147
Total Liability	6,083	6,548	7,087	7,782
Application of Funds				
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	2,373	2,785	3,403
Investments	30	30	30	30
Sundry debtors	1,161	1,161	1,161	1,161
Cash and bank	188	1,073	1,485	2,103
Other Current Assets	149	149	149	149
Total Current assets	1,537	2,422	2,834	3,452
Total Current liabilities	833	835	857	881
Total Non-Current assets	4,546	4,126	4,253	4,330
Capital Employed	6,083	6,548	7,087	7,782

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	7.3	9.3	11.2	13.3
BVPS	53	59	67	76
Valuation (x)				
P/E	43.9	34.7	27.6	23.3
P/BV	6.1	5.5	4.8	4.2
EV/EBITDA	24.1	19.9	16.6	13.9
Return ratio (%)				
EBIDTA Margin	15.1%	15.4%	16.0%	16.3%
EBIT Margin	11.0%	12.1%	12.5%	12.7%
PAT Margin	8.1%	8.9%	9.5%	9.9%
ROE	13.9%	15.8%	16.8%	17.4%
ROCE	11.4%	13.5%	14.6%	15.3%
Leverage Ratio (%)				
Total D/E	0.2	0.2	0.2	0.2
Turnover Ratios				
Asset Turnover (x)	4.1	3.0	2.9	2.7
Receivable Days	63	58	51	45
Payable days	15	15	14	12

Source: Arihant 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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