

July 31, 2025

Steady quarter...

About the stock: Firstsource Solutions (FSL) provides business process services to BFSI, communication, media, tech and healthcare. FSL is a domain driven BPM services company which has 200+ global clients, including several Fortune-500 companies & FTSE-100 companies.

Q1FY26 Performance: Revenues came at US\$ 259 mn, up 3.6% QoQ/ 20.7% YoY (up 1.6% QoQ/ 19.2% YoY in CC terms). EBIT margin came in at 11.1%, up ~10 bps QoQ. PAT at ₹169.3 crore, was up 5.4% QoQ.

Investment Rationale

- **Sustained growth momentum, but macro-overhang persists:** FSL's Q1 growth was supported by strong execution in CMT (+10.5% QoQ) & Healthcare (+2.4% QoQ). **FY26 revenue guidance has been raised to 13–15% YoY CC (excluding contributions from the pending Pastdue Credit Solutions acquisition), vs 12–15% earlier, aiming for top decile industry growth.** However, continued macro headwinds in the UK and mortgage segments, and sector-specific challenges in healthcare, temper the near-term optimism. **Accordingly, we expect US\$ revenue to grow at 12.7% CAGR over FY24–27E.**
- **Margins steady with various levers in place amid cost pressures:** Despite upcoming 2 phase (Jul/Oct) wage hikes, management expects sequential margin expansion, supported by levers like onshore-to-offshore shift, pyramid optimization, and increasing automation. We believe, nonlinear pricing models (now >50% of business) and tech-led efficiencies, including GenAI in hiring and collections, should help FSL partially navigate cost inflation. **The management has maintained EBIT margin guidance for FY26 at 11.25–12%, with 50–75 bps annual expansion every year. While sequential margin improvement is guided for, realization hinges on execution consistency and the scalability of these initiatives over time. Thus, we have conservatively baked in EBIT margins of 11.5%/12.1% for FY26E/FY27E.**
- **Agile execution and strategic moves add long-term value:** FSL's agile structure and faster execution capabilities compared to larger peers is aiding market share gains even in an uncertain environment. Strategic initiatives like the acquisition of UK-based debt recovery firm PDC (expected to be revenue and EPS accretive), AI-led automation in collections, and expanding partnerships in BFSI and Healthcare strengthen long-term positioning. With AI embedded across delivery through platforms like relAI™ and Agentic AI Studio, FSL is well-positioned to drive non-linear, high-impact transformation deals.

Rating and Target Price

- Given the steady execution with consistent revenue growth & improving margins, and a more confident FY26 outlook despite macro uncertainties, **we upgrade FSL to HOLD rating (vs REDUCE earlier), with revised target price of ₹330 (vs ₹320 earlier); at 24x P/E on FY27E EPS.**

Key Financial Summary

₹ crore	FY23	FY24	FY25	5 year CAGR (FY20–25)	FY26E	FY27E	2 year CAGR (FY25–27E)
Net Sales	6,022	6,336	7,980	14.3%	9,371	10,498	14.7%
EBITDA	827	956	1,208	13.9%	1,461	1,690	18.3%
EBITDA Margins (%)	13.7	15.1	15.1		15.6	16.1	
Net Profit	514	515	594	11.8%	760	951	26.5%
EPS (₹)	7.3	7.3	8.5		10.8	13.5	
P/E	45.3	45.2	39.1		30.6	24.5	
RoNW (%)	15.3	13.9	14.5		16.8	18.9	
RoCE (%)	14.5	14.0	13.2		15.9	18.0	

Source: Company, ICICI Direct Research



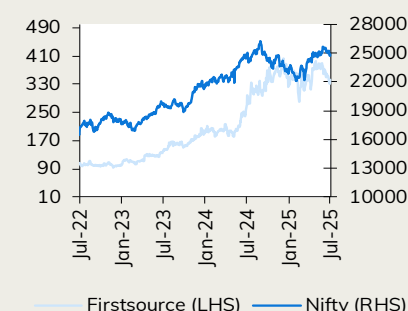
Particulars

Particular	Amount
Market Cap (₹ Crore)	23,269.8
Total Debt (₹ Crore)	1,532.7
Cash (₹ Crore)	228.6
EV (₹ Crore)	24,573.9
52 week H/L	422/ 264
Equity capital	697.0
Face value	10.0

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoters	54	54	54	54
FII	12	11	10	10
DII	19	21	23	24
Other	16	14	13	13

Price Chart



Key risks

- Higher than expected revenue growth;
- Lower than expected margin expansion

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Performance highlights and outlook

- **Revenue Performance:** FSL reported a revenue growth of 3.6% QoQ/ 20.7% YoY (up 1.6% QoQ/ 19.2% YoY in CC terms) to US\$ 259 mn. In rupee terms the revenue stood at ₹2,221 crore, up 2.5% QoQ/ 24.5% YoY.
- **Geography performance:** Geography wise on a QoQ basis, US (69% of the mix) grew by 5.1% led by Healthcare and BFSI, while UK/EMEA (30% of the mix) declined by 1% due to softness in UK utility business.
- **Segment performance:** Segment wise on a QoQ basis, growth was led by CMT (22% of the mix), Others (12% of the mix) and Healthcare (33% of the mix) and BFSI (33% of the mix) which grew by 10.5%, 2.7%, 2.4% and 0.8% respectively.
 - **BFSI:** Added 2 new clients; expanded GTM team presence in North America to broad-base presence in existing clients as well as expand footprint into adjacent segments, helping mitigate mortgage market weakness and add market share through consulting led solutions. Focus remains on mid-tier banks and fintechs pursuing platform upgrades.
 - **Healthcare:** FSL added 8 new logos in this vertical as it continues to be a high-potential vertical; strong client base (12 of top 15 US health plans); While this sector is seeing regulatory and cost headwinds, client decision making has been steady and deal ramp-ups are on track. Margin were a drag due to large deal ramp-ups and higher payer mix which typically has lower margins vs provider business. Margins expected to normalize as deals stabilize.
 - **Others (Retail & Utilities):** CC revenue declined 3% QoQ due to UK utility softness. However, deal pipeline remains healthy, supporting future growth visibility.
 - **CMT:** Added 7 logos. This remains one of the fastest-growing segments with strong engagement with Silicon Valley firms, across both traditional and GenAI-integrated offerings.
- **Margin performance:** EBIT margins at 11.3%, were up ~10 bps QoQ, within the guided range of 11.25-12%. 37 margin levers under 9 buckets, including onsite to offshore shift, optimizing sourcing and staffing strategies, employee pyramid, tech AI and Automation for efficiencies, and automation of offshore roles where AI and Agentic AI workflows continue to sustain margin expansion. PAT for the quarter stood at 169.3 crore, was up 5.4% QoQ/ 25.2% YoY.
- **Guidance for FY26:** There was an upward revision of revenue growth guidance to 13–15% CC, (excluding contributions from the pending Pastdue Credit Solutions acquisition) vs 12-15% earlier aiming for top decile industry growth. On the margins front, the management expects 50-75 bps expansion every year starting FY26 and has maintained the 11.25-12% band for EBIT margins for FY26. The aim is to maintain top decile industry growth in FY26 despite macro uncertainties.
- **Deal wins and new logos:** FSL signed 4 large deals (ACV> US\$ 5 mn) and had its highest Annual contract value (ACV) over the last five quarters. Average deal size from new logos has increased by 16% over last 4 quarters and notably many deals are not regular outsourcing deals, but large transformative programs and hence would have a staggered ramp-up curve over an extended period in a nonlinear manner. FSL added 17 new logos, highest quarterly new logo addition in last 3 years and includes 9 strategic logos (i.e., potential of US\$5mn accounts).
- **Attrition & Employee addition:** The company during the quarter reduced 156 employees taking the total headcount to 34,495 employees. The attrition stood at 28.9%, down ~90 bps QoQ. ~80% of new hires were offshore/nearshore. Company increasingly adopting nonlinear commercial models and gig-based models.
- **OCF/EBITDA:** OCF to EBITDA improved to 102%, highest in the last six quarters, driven by improved working capital management.

- **Net Debt levels:** Net debt reduced to ₹1,120 crore from ₹1,320 crore in Mar'25.
- **PDC Acquisition:** UK-based debt recovery firm - Pastdue Credit Solutions (PDC) acquisition (deal value: £22 mn) to close in Q2. Enhances UK collections footprint and brings domain depth. **Expected to be revenue and EPS accretive.** Strong client base in utilities, telecom, FS, and public sector with minimal client overlap.

Quarter Performance

₹ crore	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue	2,217.7	1,791.1	23.8	2,161.5	2.6	Revenue grew by 1.6% QoQ and 19.2% YoY in CC terms
Employee expenses	1,320.7	1,126.8	18.9	1,351.5	-2.5	
Gross Margin	897.0	664.3	35.0	810.0	10.7	
Gross margin (%)	40.4	37.1	336 bps	37.5	297 bps	
SG&A expenses	549.9	394.4	39.4	477.1	15.2	
EBITDA	347.1	269.9	28.6	332.8	4.3	
EBITDA Margin (%)	15.7	15.1	58 bps	15.4	25 bps	
Depreciation & amortisation	97.2	72.9	33.5	90.6	7.3	
EBIT	249.8	197.0	26.8	242.2	3.1	
EBIT Margin (%)	11.3	11.0	27 bps	11.2	6 bps	On the margins front, the management expects 50-75 bps expansion every year starting FY26 and has maintained the 11.25-12% band for EBIT margins for FY26
Other income (less interest)	-36.6	-29.8	23.0	-40.5	-9.6	
PBT	213.2	167.3	27.5	201.7	5.7	
Tax paid	43.9	32.0	37.2	41.0	7.0	
PAT	169.3	135.3	25.2	160.7	5.4	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total Revenues	6,336	7,980	9,371	10,498
Growth (%)	5.2	25.9	17.4	12.0
Employee expenses	3,909	4,996	5,608	6,247
Other Expenses	1,471	1,777	2,302	2,562
EBITDA	956	1,208	1,461	1,690
Growth (%)	15.7	26.3	21.0	15.7
Depreciation & Amortization	260	327	386	420
Other Income	37	(1)	25	28
Interest	103	148	148	110
PBT before Exceptional Items	630	741	951	1,188
Growth (%)	2.4	17.6	28.5	24.9
Tax	115	146	192	238
PAT before Excp Items	515	594	760	951
Exceptional items				
PAT before MI	515	594	760	951
Minority Int & Pft. from asso.	(0)	(0)	-	-
PAT	515	594	760	951
Growth (%)	0.2	15.5	27.8	25.1
EPS	7.3	8.5	10.8	13.5
EPS (Growth %)	0.2	15.5	27.8	25.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before Tax	630	741	951	1,188
Dep & Amortization	260	327	386	420
WC changes	(240)	(494)	(198)	(158)
Other non cash adju.	(5)	128	(68)	(156)
CF from operations	645	701	1,072	1,295
Capital expenditure	(85)	(241)	(94)	(105)
Δ in investments	36	(16)	-	-
Other investing cash flow	1	3	25	28
CF from Inv Activities	(58)	(746)	(69)	(77)
Issue of equity	(52)	(59)	-	-
Δ in debt funds	128	858	(200)	(200)
Dividends paid	(241)	(276)	(342)	(428)
Other financing cash flow	(101)	(158)	(148)	(110)
CF from Fin Activities	(564)	23	(783)	(831)
Δ in cash and cash bank	23	(22)	219	387
Effect of exchange rate changes				
Opening cash	156	188	167	386
Closing cash	188	167	386	774

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity	697	697	697	697
Reserves & Surplus	3,003	3,401	3,819	4,341
Networth	3,700	4,098	4,516	5,038
Minority Interest	0	0	0	0
LT liabilities & provisions	737	1,054	1,054	1,054
Total Debt	812	1,533	1,333	1,133
Source of funds	5,250	6,684	6,902	7,225
Net fixed assets	800	1,189	990	768
CWIP	17	49	49	49
Goodwill	2,988	3,680	3,680	3,680
Other non current assets	740	780	845	897
Loans and advances	-	-	-	-
Current Investments	30	62	62	62
Debtors	1,161	1,686	1,981	2,217
Cash & Cash equivalents	188	167	386	774
Other current assets	158	309	364	407
Trade payables	306	398	467	523
Current liabilities	460	761	894	1,001
Provisions	67	79	93	104
Application of funds	5,250	6,684	6,902	7,225

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS-diluted	7.3	8.5	10.8	13.5
DPS	3.5	4.0	4.8	6.1
BV	54.4	60.2	66.4	74.1
Operating Ratios (%)				
EBITDA Margin	15.1	15.1	15.6	16.1
PBT Margin	9.9	9.3	10.2	11.3
PAT Margin	8.1	7.4	8.1	9.1
Return Ratios (%)				
RoNW	13.9	14.5	16.8	18.9
RoCE	14.0	13.2	15.9	18.0
Valuation Ratios (x)				
P/E	45.2	39.1	30.6	24.5
EV / EBITDA	25.0	20.3	16.5	13.9
Price to Book Value	6.3	5.7	5.2	4.6
EV / Net Sales	3.8	3.1	2.6	2.2
Mcap / Net Sales	3.7	2.9	2.5	2.2
Turnover Ratios				
Debtor days	67	77	77	77
Creditors days	18	18	18	18
Solvency Ratios				
Total Debt / Equity	0.2	0.4	0.3	0.2
Current Ratio	1.6	1.6	1.6	1.6
Quick Ratio	1.6	1.6	1.6	1.6
Net Debt / EBITDA	0.6	1.1	0.6	0.2

Source: Company, ICICI Direct Research

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