Firstsource Solutions (FIRSOU)

CMP: ₹ 356 Target: ₹ 350 (-2%) Target Period: 12 months

HOLD

Result Update

November 6, 2025

Steady execution; Maintains growth outlook…

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.

Q2FY26 Performance: Revenues came at US$ 265 mn, up 2.3% QoQ/ 15.2% YoY (up 2% QoQ/ 13.8% YoY in CC terms). EBIT margin came in at 11.5%, up ~20 bps QoQ. PAT at ₹177.6 crore, was up 4.9% QoQ.

Investment Rationale

- **Sustained growth momentum across verticals:** FSL growth is anchored in BFSI (+4.5% QoQ) and Healthcare (+2.6% QoQ), aided by AI-led, consulting-driven transformation engagements and strategic investments in sales capabilities. With deal wins across leading US and UK clients and expansion into new markets like the Middle East (Dubai) and Australia, FSL's diversified presence underpins continued broad-based growth visibility. **Moreover, management's FY26 guidance was maintained at 13–15% CC revenue growth coupled with commentary that growth momentum is likely to sustain in H2. Accordingly, we expect US$ revenue to grow at 12.5% CAGR over FY25–27E.**

- **Margin expansion reflects operational leverage and tech-led efficiency:** The company witnessed a 20 bps QoQ, margin improvement to 11.5%, despite wage hikes for over 90% of employees, supported by delivery optimization, right-sourcing, and AI interventions in execution. The "UnBPO" playbook, focused on technology arbitrage over labour arbitrage, is helping lift efficiency and value realization. Management maintained its target of steady 50–75 bps annual margin expansion over the medium term. **Moreover, the management has maintained EBIT margin guidance for FY26 at 11.25–12%. Thus, we have baked in EBIT margins of 11.5%/12.2% for FY26E/FY27E.**

- **Strong deal wins and pipeline:** With **4 large deal wins** (ACV> US$ 5mn), **10 new logos (including 4 strategic), and a record US$1 billion+ deal pipeline,** growing 5–10% sequentially, FSL continues to strengthen client mining and expand its non-top-five client base. Ramp-ups in BFSI and Healthcare (BPaaS deal in US with steady-state ACV of over US$50 mn), coupled with growing traction in CMT and collections, position it well for a sustained growth momentum in H2FY26.

Rating and Target Price

- We believe valuations appear fully priced, limiting near term upside despite steady operational performance. Thus, we maintain **HOLD rating, with revised target price of ₹350 (vs ₹330 earlier); at revised multiple of 26x P/E on FY27E EPS.**

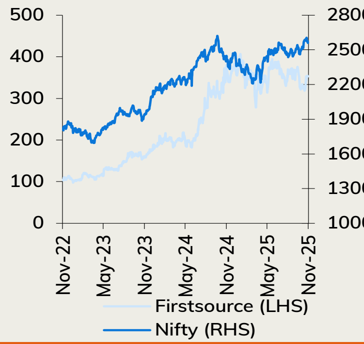
Particulars

Particular	Amount
Market Cap (₹ Crore)	24,222.3
Total Debt (₹ Crore)	1,532.7
Cash (₹ Crore)	228.6
EV (₹ Crore)	25,526.5
52 week H/L	422/ 270
Equity capital	697.0
Face value	10.0

Shareholding pattern

	Dec-24	Mar-25	Jun-25	Sep-25
Promoters	54	54	54	54
FII	11	10	10	9
DII	21	23	24	25
Other	14	13	13	12

Price Chart



Key risks

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

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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%	9,350	10,527	14.9%
EBITDA	827	956	1,208	13.9%	1,509	1,748	20.3%
EBITDA Margins (%)	13.7	15.1	15.1		16.1	16.6	
Net Profit	514	515	594	11.8%	740	943	26.0%
EPS (₹)	7.3	7.3	8.5		10.5	13.4	
P/E	47.5	47.5	41.1		33.0	25.9	
RoNW (%)	15.3	13.9	14.5		16.4	18.8	
RoCE (%)	14.5	14.0	13.2		15.9	18.2	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Performance highlights and outlook

- **Revenue Performance:** FSL reported a revenue growth of 2.3% QoQ/ 15.2% YoY (up 2% QoQ/ 13.8% YoY in CC terms) to US$ 265 mn. In rupee terms the revenue stood at ₹2,315 crore, up 4.2% QoQ/ 19.8% YoY.
- **Geography performance**: Geography wise on a QoQ basis, US (69% of the mix) grew by 3.4% while UK/EMEA (29% of the mix) was flat. **The management expects growth to remain healthy and broad-based across three core verticals in North-America while they expect Europe to recover gradually as decision-making cycles continue to take longer than usual.**
- **Segment performance**: Segment wise on a QoQ basis, growth was led by BFSI (33% of the mix), Healthcare (34% of the mix) and Others (12% of the mix) which grew by 4.5%, 2.6% and 1.4% while CMT (22% of the mix) declined by 0.9%.
  - **BFSI**: Added 3 new clients; made targeted investments over past few quarters to strengthen our sales and solutions organization in this vertical, particularly in North-America with the objective of deepening client relationships and expanding into adjacent segments.
  - **Healthcare:** FSL added 3 new logos; strong client base (12 of top 15 US health plans); Healthcare continues to be a strategic growth vertical as it continues to see strong traction, especially in payer business. Recent regulatory changes are expected to significantly increase administrative costs in both the provider and payer segments as the mix shifts from pure volumes to higher complexity workflows; Pipeline at 2.5x vs last year.
  - **Others (Retail & Utilities):** UK demand sluggishness continues through Q2, albeit pipeline remains strong. Management expects modest growth going ahead as well.
  - **CMT:** Added 4 logos. While project transitions led to volatility this quarter, it remains one of the fastest-growing segments, driven by strong engagement with leading consumer tech brands across both core offerings as well as newer non-traditional solutions.
- **Margin performance**: EBIT margins at 11.5%, was up ~20 bps QoQ (within the guided range of 11.25-12%), despite absorbing wage hike for 90% workforce which was offset by efforts made for right shoring, optimizing delivery structure, and AI and tech interventions in execution. PAT for the quarter stood at ₹177.6 crore, was up 4.9% QoQ/ 28.5% YoY.
- **Guidance for FY26: Management maintained revenue growth guidance at 13–15% CC, (excluding contributions from the pending Pastdue Credit Solutions acquisition), aiming for top decile industry growth. On the margins front too, the management reiterated that it expects 50-75 bps expansion every year and maintained the 11.25-12% band for EBIT margins for FY26.**
- **Deal wins and new logos:** FSL signed **4 large deals** (Annual Contract Value i.e., ACV> US$ 5 mn). It **added 10 new logos including 4 strategic logos** (i.e., potential of US$5mn accounts). FSL added 19 strategic logos over 4 quarters between Q2FY25 and Q1FY26 of which 13 logos have been able to hit aspirational target of a US$5 million relationship size within these four quarters. It reported that its **deal pipeline has crossed US$ 1 bn,** growing 5–10% sequentially.
- **Attrition & Employee addition**: The company during the quarter added 1,502 employees taking the total headcount to 35,997 employees. The attrition stood at 28%, down ~90 bps QoQ.
- **Net Debt:** Net debt reduced to ₹1,080 crore from ₹1,120 crore in June'25.

- **Strategic investment:** FSL announced a strategic investment in Lyzr.ai, an enterprise AI agent infrastructure platform, to advance its UnBPO vision — integrating human expertise with responsible, enterprise-grade AI. The partnership will enable secure, scalable automation of complex, regulated processes across industries like banking, healthcare, and legal services. By embedding Lyzr's AI agent framework, FSL aims to drive outcome-focused digital transformation through technology arbitrage, governance, and human-centered intelligence.

Quarter Performance

₹ crore	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Revenue	2,312.2	1,925.4	20.1	2,217.7	4.3	Revenue grew by 2% QoQ and 13.8% YoY in CC terms
Employee expenses	1,361.8	1,210.4	13.8	1,320.7	3.4	
Gross Margin	950.4	714.9	32.9	897.0	6.0	
Gross margin (%)	41.1	37.1	397 bps	40.4	66 bps	
SG&A expenses	574.4	427.7	34.3	549.9	4.5	
EBITDA	376.0	287.3	30.9	347.1	8.3	
EBITDA Margin (%)	16.3	14.9	134 bps	15.7	61 bps	
Depreciation & amortisation	109.6	79.2	38.4	97.2	12.7	
EBIT	266.5	208.1	28.1	249.8	6.7	
EBIT Margin (%)	11.5	10.8	72 bps	11.3	26 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)	-44.0	-37.1	18.9	-36.6	20.3	
PBT	222.4	171.0	30.1	213.2	4.3	
Tax paid	44.8	32.8	36.6	43.9	2.1	
PAT	177.6	138.2	28.5	169.3	4.9	

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**	**9,350**	**10,527**
Growth (%)	5.2	25.9	17.2	12.6
Employee expenses	3,909	4,996	5,526	6,211
Other Expenses	1,471	1,777	2,315	2,569
EBITDA	**956**	**1,208**	**1,509**	**1,748**
Growth (%)	15.7	26.3	24.9	15.8
Depreciation & Amortization	260	327	433	463
Other Income	37	(1)	18	25
Interest	103	148	166	130
PBT before Exceptional Items	630	741	927	1,179
Growth (%)	2.4	17.6	25.1	27.3
Tax	115	146	187	236
PAT before Excp Items	515	594	740	943
Exceptional items				
PAT before MI	515	594	740	943
Minority Int & Pft. from asso.	(0)	(0)	-	-
PAT	**515**	**594**	**740**	**943**
Growth (%)	0.2	15.5	24.5	27.5
EPS	7.3	8.5	10.5	13.4
EPS (Growth %)	0.2	15.5	24.5	27.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before Tax	**630**	**741**	**927**	**1,179**
Dep & Amortization	260	327	433	463
WC changes	(240)	(494)	(195)	(164)
Other non cash adju.	(5)	128	(38)	(131)
CF from operations	**645**	**701**	**1,127**	**1,348**
Capital expenditure	(85)	(241)	(94)	(105)
Δ in investments	36	(16)	-	-
Other investing cash flow	1	3	18	25
CF from Inv Activities	**(58)**	**(746)**	**(76)**	**(80)**
Issue of equity	(52)	(59)	-	-
Δ in debt funds	128	858	(200)	(200)
Dividends paid	(241)	(276)	(333)	(425)
Other financing cash flow	(101)	(158)	(166)	(130)
CF from Fin Activities	**(564)**	**23**	**(792)**	**(848)**
Δ in cash and cash bank	23	(22)	259	420
Effect of exchange rate changes				
Opening cash	156	188	167	426
Closing cash	**188**	**167**	**426**	**845**

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	3,808	4,326
Networth	3,700	4,098	4,505	5,023
Minority Interest	0	0	0	0
LT liabilties & provisions	737	1,054	1,054	1,054
Total Debt	812	1,533	1,333	1,133
Source of funds	**5,250**	**6,684**	**6,891**	**7,210**
Net fixed assets	800	1,189	942	677
CWIP	17	49	49	49
Goodwill	2,988	3,680	3,680	3,680
Other non current assets	740	780	844	898
Loans and advances	-	-	-	-
Current Investments	30	62	62	62
Debtors	1,161	1,686	1,978	2,223
Cash & Cash equivalents	188	167	426	845
Other current assets	158	309	363	408
Trade payables	306	398	466	524
Current liabilities	460	761	893	1,003
Provisions	67	79	93	105
Application of funds	**5,250**	**6,684**	**6,891**	**7,210**

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	10.5	13.4
DPS	3.5	4.0	4.8	6.1
BV	54.4	60.2	66.2	73.8
Operating Ratios (%)				
EBITDA Margin	15.1	15.1	16.1	16.6
PBT Margin	9.9	9.3	9.9	11.2
PAT Margin	8.1	7.4	7.9	9.0
Return Ratios (%)				
RoNW	13.9	14.5	16.4	18.8
RoCE	14.0	13.2	15.9	18.2
Valuation Ratios (x)				
P/E	47.5	41.1	33.0	25.9
EV / EBITDA	26.2	21.3	16.8	14.1
Price to Book Value	6.6	6.0	5.4	4.9
EV / Net Sales	3.9	3.2	2.7	2.3
Mcap / Net Sales	3.9	3.1	2.6	2.3
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	0.1

Source: Company, ICICI Direct Research

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