

CMP: ₹ 305

Target: ₹ 330 (8%)

Target Period: 12 months

HOLD

February 4, 2026

## Healthy quarter; Conservative guidance...

**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.

**Q3FY26 Performance:** Revenues came at US\$ 274 mn, up 3.4% QoQ/ 10% YoY (4.6% QoQ & 10.6% YoY in CC terms). EBIT margins (ex-one off from new labour code) at 11.9%, was up ~40 bps QoQ. Adj. PAT (ex-one off from new labour code) at ₹220.5 crore, was up 24% QoQ/ 37.5% YoY.

### Investment Rationale

- Strong deal engine and pipeline visibility, but growth quality still evolving:** FSL demonstrated solid execution with 4.6% QoQ CC growth healthy double-digit YoY growth, partially aided by new acquisition. Q3 saw **5 large deals** (ACV >US\$5 mn), **9 new logos including 5 strategic ones** (potential of ≥US\$5mn revenue run-rate annually), and an **exit pipeline above US\$1 bn**, while 60% of strategic logos over eight quarters scaled toward US\$5mn run-rate relationships. However, BFSI and Healthcare were sequentially soft and **near-term optics are affected by provider account rationalization in healthcare segment (~50 bps FY26 revenue impact)**, suggesting reported momentum may remain uneven despite healthy underlying demand. **Accordingly, we expect US\$ revenue to grow at 10.6% CAGR over FY26–28E.**

- Margin expansion reflects operational leverage and tech-led efficiency:** The company witnessed QoQ margin improvement, 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 realisation. **Management maintained its target of steady 50–75 bps annual margin expansion over the medium term. Moreover, the management has revised EBIT margin guidance for FY26 at 11.5–12% (vs 11.25–12% earlier). We have baked in EBIT margins of 11.6%/11.9%/12.1% for FY26E/FY27E/FY28E.**

- Healthy operating metrics though conservative FY26 guidance tempers optimism:** FY26 CC revenue growth guidance of 14.5–15.5% includes ~1.5% inorganic contribution (PDC + TeleMedik), implying 13–14% organic growth vs 12–15% earlier — only a modest uplift at the lower end and reduction at the top end, despite strong deal velocity (13 large deals in 9M; 5 in Q3) and a US\$1 bn+ pipeline. **Management commentary highlights macro caution, healthcare restructuring and phased ramp-ups, indicating visibility but measured conversion.** While the UnBPO strategy, Puerto Rico healthcare expansion & offshore shift (UK down 40%, South Africa up 50%) strengthen the medium-term story, near-term return expectations appear balanced.

### Rating and Target Price

- Given the measured outlook, we maintain **HOLD rating**, with revised target price of ₹330 (vs ₹350 earlier); valuing it at 22x P/E on FY28E EPS.

### Key Financial Summary

₹ crore	FY23	FY24	FY25	5 year CAGR (FY20–25)	FY26E	FY27E	FY28E	3 year CAGR (FY25–28E)
Net Sales	6,022	6,336	7,980	14.3%	9,516	10,789	11,938	14.4%
EBITDA	827	956	1,208	13.9%	1,540	1,769	1,982	18.0%
EBITDA Margins (%)	13.7	15.1	15.1		16.2	16.4	16.6	
Net Profit	514	515	594	11.8%	774	902	1,050	20.9%
EPS (₹)	7.3	7.3	8.5		11.0	12.9	15.0	
P/E	40.5	40.4	35.0		26.9	23.1	19.8	
RoNW (%)	15.3	13.9	14.5		17.1	18.0	18.8	
RoCE (%)	14.5	14.0	13.2		16.2	18.1	19.4	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Cap (₹ Crore)	20,725.1
Total Debt (₹ Crore)	1,532.7
Cash (₹ Crore)	228.6
EV (₹ Crore)	22,029.2
52 week H/L	404/ 301
Equity capital	697.0
Face value	10.0

### Shareholding pattern

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

### Price Chart



### Key risks

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

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## Performance highlights and outlook

- **Revenue Performance:** FSL reported a revenue growth of 3.4% QoQ/ 10% YoY (4.6% QoQ & 10.6% YoY in CC terms) to US\$ 274 mn. In rupee terms the revenue stood at ₹2,467 crore, up 6.6% QoQ/ 18.2% YoY.
- **Geography performance:** Geography wise on a QoQ basis, UK/EMEA (32% of the mix) grew by 11.5% while US (67% of the mix) was flat.
- **Segment performance:** Segment wise on a QoQ basis, growth was led by Others – utilities and retail (15% of the mix) and CMT (21% of the mix) which grew by 33.7%, and 1% while BFSI (32% of the mix) and Healthcare (32% of the mix) declined by 1.3% and 0.9%.
  - **BFSI:** added five new logos during the quarter; clients are increasingly prioritizing regulatory adherence, customer experience and cost-efficiency; Q3 exit deal pipeline was amongst the strongest in recent quarters and management expects sustaining growth momentum in this vertical.
  - **Healthcare:** added one new logo during the quarter; Healthcare continues to be a core growth pillar and a key area of strategic differentiation; Clients across both segments of payer and provider are navigating macro pressures of rising costs, increasing regulatory complexity and the need to deliver better experiences and outcomes; **FSL has created dedicated leadership roles for both the payer and the provider segments.** Ramp-ups of previously won large deals are on track and deal pipeline remains healthy. **In Q3, healthcare segment saw planned rationalization of low-margin low-growth accounts, particularly in the provider segment, which may weigh on the optical growth in the short-term but strengthen medium-term growth quality and margin trajectory for the vertical.**
  - **Others (Retail & Utilities):** This portfolio includes utilities and retail clients, mainly in the UK; deal pipeline remains healthy; Past Due Credit Solutions acquisition adds several large and new logos to this segment; won additional business in renewals in the retail portfolio.
  - **CMT:** added two new logos during the quarter; 3/5 large deal wins in Q3 came from this segment;
- **Margin performance:** EBIT margins (ex-one off from new labour code) at 11.9%, was up ~40 bps QoQ and within the guided range of 11.25-12%. Reported PAT at ₹120.3 crore, was down 32% QoQ/25% YoY while Adj. PAT (ex-one off from new labour code) at ₹220.5 crore, was up 24% QoQ/ 37.5% YoY.
- **Guidance for FY26:** Management provided FY26 CC revenue growth guidance of 14.5–15.5% (including a 1.5% contribution from Pastdue Credit Solutions (PDC) and TeleMedik acquisitions - implying organic growth guidance of 13-14% YoY CC) - vs 13-15% earlier and 11.5–12% EBIT margin guidance (vs 11.25-12% earlier) and reiterated that it expects 50-75 bps expansion every year. Healthcare tail account rationalisation would impact FY26 revenues to the extent of 50 bps.
- **Deal wins, new logos and pipeline:** FSL won 5 large deals (deal with an ACV>US\$5 million) and added 9 new logos, including 5 strategic logos (potential of at least a US\$5 million revenue run-rate annually). FSL won 13 large deals in 9MFY26 vs 14 wins in entire FY25 and close to double the number of wins in FY24. It hit its aspirational target of a US\$5 mn relationship size in 10 of the 20 strategic logos that were added over past 4 quarters while 60% of strategic logos over eight quarters scaled toward US\$5mn run-rate relationships. **Deal pipeline remains above US\$1 bn.**
- **Attrition & Employee addition:** The company during the quarter added 692 employees taking the total headcount to 36,689 employees. Attrition stood at 27.4%, down ~60 bps QoQ.
- **Dividend:** The Board declared an interim dividend of ₹5.50 per share.

## Exhibit 1: Quarter Performance

₹ crore	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue	2,443.1	2,102.4	16.2	2,312.2	5.7	- Revenue grew by 4.6% QoQ and 10.6% YoY in CC terms - Management has provided FY26 CC revenue growth guidance of 14.5–15.5% (including a 1.5% contribution from Pastdue Credit Solutions (PDC) and TeleMedik acquisitions - implying organic growth guidance of 13–14% YoY CC)
Employee expenses	1,431.2	1,307.0	10.4	1,361.8	5.6	
Gross Margin	1,011.9	795.3	27.2	950.4	6.5	
Gross margin (%)	41.4	37.8	359 bps	41.1	31 bps	
SG&A expenses	609.3	477.7	27.5	574.4	6.1	
EBITDA	402.7	317.7	26.8	376.0	7.1	
EBITDA Margin (%)	16.5	15.1	137 bps	16.3	22 bps	
Depreciation & amortisation	111.2	84.4	31.8	109.6	1.5	
EBIT	291.5	233.3	24.9	266.5	9.4	
EBIT Margin (%)	11.9	11.1	83 bps	11.5	41 bps	On the margins front, the management expects 50–75 bps expansion every year starting FY26 and has revised the lower end of the guidance by 25 bps to 11.5–12% band for EBIT margins for FY26
Other income (less interest)	-39.6	-41.4	-4.3	-44.0	-10.0	
PBT	251.8	191.8	31.3	222.4	13.2	
Tax paid	31.3	40.3	-22.3	44.8	-30.1	
PAT	120.3	160.3	-24.9	177.6	-32.2	Adj. PAT (ex-one off from new labour code) at ₹220.5 crore, was up 24% QoQ/ 37.5% YoY.

Source: Company, ICICI Direct Research

## Exhibit 2: Change in estimates

(₹ Crore)	FY26E			FY27E			FY28E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue (USD mn)	1,076	1,083	0.7	1,194	1,204	0.8	1,325
Revenue	9,350	9,516	1.8	10,527	10,789	2.5	11,938
EBITDA	1,509	1,540	2.1	1,748	1,769	1.2	1,982
EBITDA Margin (%)	16.1	16.2	5 bps	16.6	16.4	-20 bps	16.6
PAT	740	774	4.6	943	902	-4.4	1,050
Diluted EPS (₹)	10.5	11.0	4.6	13.444	12.9	-4.4	15.0

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E
<b>Total Revenues</b>	<b>7,980</b>	<b>9,516</b>	<b>10,789</b>	<b>11,938</b>
Growth (%)	25.9	19.2	13.4	10.7
Employee expenses	4,996	5,614	6,365	7,043
Other Expenses	1,777	2,362	2,654	2,913
<b>EBITDA</b>	<b>1,208</b>	<b>1,540</b>	<b>1,769</b>	<b>1,982</b>
Growth (%)	26.3	27.5	14.9	12.0
Depreciation & Amortization	327	438	485	537
Other Income	(1)	15	18	24
Interest	148	169	160	140
PBT before Exceptional Items	741	948	1,142	1,328
Growth (%)	17.6	28.1	20.4	16.3
Tax	146	175	240	279
<b>PAT before Excp Items</b>	<b>594</b>	<b>774</b>	<b>902</b>	<b>1,050</b>
Exceptional items				
PAT before MI	594	774	902	1,050
Minority Int & Pft. from asso.	(0)	-	-	-
<b>PAT</b>	<b>594</b>	<b>774</b>	<b>902</b>	<b>1,050</b>
Growth (%)	15.5	30.1	16.6	16.3
EPS	8.5	11.0	12.9	15.0
EPS (Growth %)	15.5	30.1	16.6	16.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E	
<b>Profit before Tax</b>	<b>741</b>	<b>948</b>	<b>1,142</b>	<b>1,328</b>	
Dep & Amortization	327	438	485	537	
WC changes	(494)	(222)	(174)	(163)	
Other non cash adju.	128	(21)	(98)	(163)	
<b>CF from operations</b>	<b>701</b>	<b>1,143</b>	<b>1,356</b>	<b>1,540</b>	
Capital expenditure	(241)	(95)	(108)	(119)	
Δ in investments	(16)	-	-	-	
Other investing cash flow	3	15	18	24	
<b>CF from Inv Activities</b>	<b>(746)</b>	<b>(80)</b>	<b>(90)</b>	<b>(95)</b>	
Issue of equity	(59)	-	-	-	
Δ in debt funds	858	(200)	(200)	(200)	
Dividends paid	(276)	(348)	(406)	(472)	
Other financing cash flow	(158)	(169)	(160)	(140)	
<b>CF from Fin Activities</b>	<b>23</b>	<b>(811)</b>	<b>(859)</b>	<b>(905)</b>	
Δ in cash and cash bank	(22)	252	407	540	
Effect of exchange rate changes					
Opening cash	188	167	419	826	
<b>Closing cash</b>	<b>167</b>	<b>419</b>	<b>826</b>	<b>1,366</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
(Year-end March)	FY25	FY26E	FY27E	FY28E
<b>Equity</b>	<b>697</b>	<b>697</b>	<b>697</b>	<b>697</b>
Reserves & Surplus	3,401	3,826	4,322	4,899
Networth	4,098	4,523	5,019	5,596
Minority Interest	0	0	0	0
LT liabilities & provisions	1,054	1,054	1,054	1,054
Total Debt	1,533	1,333	1,133	933
<b>Source of funds</b>	<b>6,684</b>	<b>6,910</b>	<b>7,206</b>	<b>7,583</b>
Net fixed assets	1,189	940	655	330
CWIP	49	49	49	49
Goodwill	3,680	3,680	3,680	3,680
Other non current assets	780	853	910	964
Loans and advances	-	-	-	-
Current Investments	62	62	62	62
Debtors	1,686	2,018	2,278	2,521
Cash & Cash equivalents	167	419	826	1,366
Other current assets	309	370	418	463
Trade payables	398	476	537	595
Current liabilities	761	911	1,028	1,138
Provisions	79	95	107	119
<b>Application of funds</b>	<b>6,684</b>	<b>6,910</b>	<b>7,206</b>	<b>7,583</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
<b>Per share data (₹)</b>				
EPS-diluted	8.5	11.0	12.9	15.0
DPS	4.0	4.9	5.8	6.7
BV	60.2	66.5	73.8	82.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.1	16.2	16.4	16.6
PBT Margin	9.3	10.0	10.6	11.1
PAT Margin	7.4	8.1	8.4	8.8
<b>Return Ratios (%)</b>				
RoNW	14.5	17.1	18.0	18.8
RoCE	13.2	16.2	18.1	19.4
<b>Valuation Ratios (x)</b>				
P/E	35.0	26.9	23.1	19.8
EV / EBITDA	18.3	14.1	11.9	10.3
Price to Book Value	5.1	4.6	4.1	3.7
EV / Net Sales	2.8	2.3	2.0	1.7
Mcap / Net Sales	2.6	2.2	1.9	1.7
<b>Turnover Ratios</b>				
Debtor days	77	77	77	77
Creditors days	18	18	18	18
<b>Solvency Ratios</b>				
Total Debt / Equity	0.4	0.3	0.2	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	1.1	0.6	0.1	(0.2)

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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