

**Growth momentum in H2FY23**

**CMP: INR 115**

**Rating: Accumulate**

**Target Price: 134**

**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)	7,945
52w H/L (INR)	243/ 111
Avg Yearly Vol (in 000')	6266

**Shareholding Pattern %**

(As on March, 2022)

Promoters	53.66
FII	7.79
DII	14.76
Public & Others	23.79

**Stock Performance (%)**

	1m	3m	12m
FSL	-13.9	-25.1	-10.3
Nifty 50	-7.1	-4.8	14.0

**FSL Vs Nifty 50**



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Firstsource Solutions Ltd (FSL) Decent set of Nos, largely in-line with the estimates. FSL has reported consolidated revenue of INR 1464 Cr, +5.5% YoY/5.5% QoQ in Q4FY22 against our estimate of INR 1,437 Cr. CC revenue of \$205Mn, +2.5% YoY/4.9% QoQ in Q4FY22 against our estimate of INR \$196Mn, Driven by Healthcare segment and CMT. Consolidated EBIT stood at INR 175 Cr, down by 3.2% YoY/-0.6% QoQ against our estimate of INR 176 Cr. On the margins front, the EBIT margin contracted by 102bps YoY/ 70bps QoQ to 11.3% against our estimate of 11.9%. Consolidated PAT stood at INR 132.39Cr, up by 11.9% YoY/0.3% QoQ against our estimate of INR 122.3 Cr. EPS stood at INR 1.95 in Q4FY22 against INR 1.99 in Q3FY22 (INR 0.69 in Q4FY21). The company on boarded the 16 new client in Q4FY22. Healthcare business added 6 new clients and expanded its footprint to maxico to tap into the growing demand for near shore operation from US clients. BFS 8 new clients to its roster, further strengthening the momentum in Fin-Tech arena. Mortgage business on boarded 4 new wins while collection business welcome 3 new clients. Communications, Media, and Technology (CMT) secured 2 new clients acquisition.

**Growth trajectory:** The volumes will pick up as Q2FY23 begin and then more growth in H2. UK BFS, will be steady growth through the year. Collections, has started out strong and the management cautiously optimistic that will start the growth a little bit better from Q2FY23 onwards rather than all towards the back ended. But overall, the impact of mortgage and the growth in other sectors, Q1 will be flattish and will start to pickup up in Q2 and then we will see healthy growth in Q3FY23 and Q4FY23, from a revenue perspective. On EBIT, this is a year of transition. And the company is replacing almost 10 points of the growth from mortgage, with more steady. So, there is a 10% switch of the revenue, switching from mortgage to them or profitable one. Management is expects EBIT at 11.5%- 12% by Q4FY23.

**Valuations**

At a CMP of INR 115, FSL is currently trading at a PE of 12x to its FY24E EPS of INR 9.6. The company has guided organic growth guidance 7-10% for the FY23. This factors in the reduction in the mortgage business and growth in the others. organic growth excluding mortgage and excluding acquisitions of StoneHill and ARSI is expected to be between 18%-22%. Whereas, Margin guidance for 10.5-11% for the FY23 and we are expecting good collection in this year. Management is confident on emerging stronger and delivering sequential growth from Q2 onwards and on normalizing margins by end of this year. The pipeline remains strong especially in digital and the more focus toward the execution. **We value FSL at a PE of 14x to its FY24E EPS of INR 9.6, which yields a target price of INR 134 per share. We maintain our Accumulate rating on the stock.**

Consolidated (INR Cr)	FY21	FY22	FY23E	FY24E
Net Sales	5078	5921	6513	7165
EBIT	597.9	710.5	726.3	882.3
Net profit	362	537	539	669
EPS ( INR)	5.3	7.9	7.7	9.6
PE (x)	21.6	14.5	14.8	12.0
EBIT Margin	11.8%	12.0%	11.2%	12.3%
PAT Margin	7.1%	9.1%	8.3%	9.3%
ROE	13%	18%	16%	18%
ROCE	12%	12%	13%	14%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q4FY22 - Quarterly Performance (Consolidated)

Consolidated (in INR Cr)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
<b>Revenue (CC Terms) (Mn USD)</b>	<b>205.0</b>	<b>195.4</b>	<b>200.0</b>	<b>4.9%</b>	<b>2.5%</b>
<b>Net Revenue</b>	1,543.93	1,463.81	1,462.84	<b>5.5%</b>	<b>5.5%</b>
Employee cost	984	968	1,006	<b>1.7%</b>	<b>-2.1%</b>
Other Expenses	315	258	223	<b>21.8%</b>	<b>41.1%</b>
<b>EBITDA</b>	<b>245</b>	<b>238</b>	<b>234</b>	<b>2.9%</b>	<b>4.5%</b>
<b>EBITDA margin %</b>	<b>15.9%</b>	<b>16.3%</b>	<b>16.0%</b>	<b>-40bps</b>	<b>-16bps</b>
Depreciation	70	62	53	<b>13.0%</b>	<b>30.6%</b>
EBIT	175	176	181	<b>-0.6%</b>	<b>-3.2%</b>
<b>EBIT margin %</b>	<b>11.3%</b>	<b>12.0%</b>	<b>12.4%</b>	<b>-70bps</b>	<b>-102bps</b>
Other Income	-0	0	-2	<b>-275.0%</b>	<b>-80.2%</b>
Finance costs	19	15	14	<b>24.1%</b>	<b>36.7%</b>
<b>PBT</b>	<b>156</b>	<b>161</b>	<b>165</b>	<b>-3.3%</b>	<b>-5.6%</b>
Exceptional item	-	-	110		
<b>PBT and share net profit</b>	<b>156.00</b>	<b>161.35</b>	<b>55.345</b>	<b>-3.3%</b>	<b>181.9%</b>
Tax Expense	24	26	9	<b>-8.8%</b>	<b>172.4%</b>
Effective tax rate %	15.1%	16.1%	5.2%	<b>-91bps</b>	<b>989bps</b>
<b>PAT</b>	<b>132.39</b>	<b>135</b>	<b>46.675</b>	<b>0.3%</b>	<b>11.9%</b>
Non-controlling interest	-0	-0	-0		
<b>Consolidated PAT</b>	<b>132</b>	<b>135</b>	<b>47</b>	<b>-2.3%</b>	<b>183.6%</b>
<b>Reported PAT</b>	<b>132</b>	<b>135</b>	<b>-63.21</b>	<b>-2.3%</b>	<b>NA</b>
<b>PAT margin %</b>	<b>8.6%</b>	<b>9.3%</b>	<b>3.2%</b>	<b>-68bps</b>	<b>538bps</b>
<b>EPS (INR)</b>	<b>2.0</b>	<b>2.0</b>	<b>0.7</b>	<b>-2.0%</b>	<b>182.6%</b>

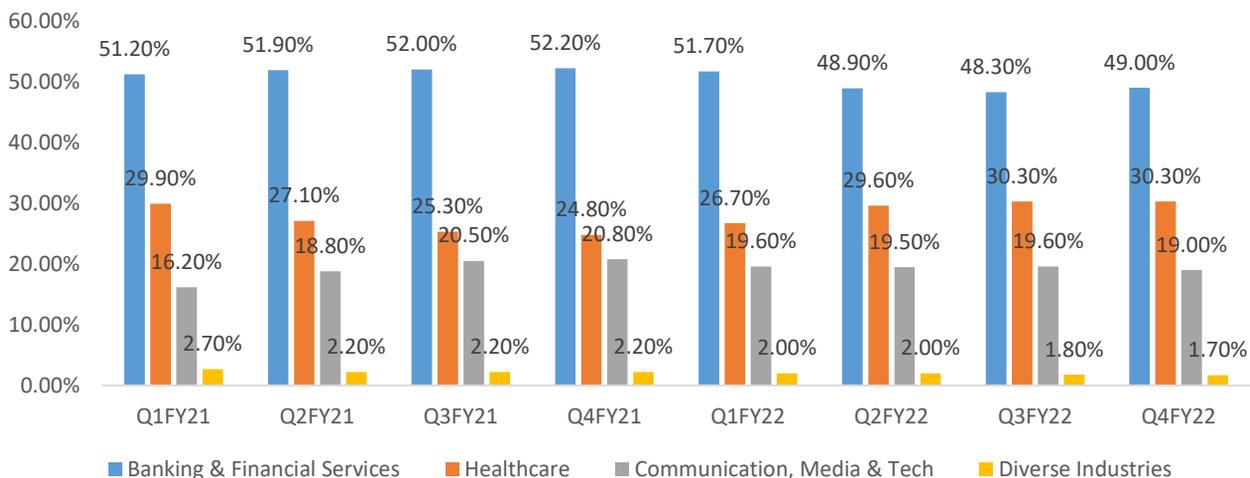
Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

#### Q4FY22 Conference call highlights

- **Guidance:** The company has guided organic growth guidance 7-10% for the FY23. This factors in the reduction in the mortgage business and growth in the others. organic growth excluding mortgage and excluding acquisitions of StoneHill and ARSI is expected to be between 18%-22%. This is driven by go-live of recent wins across Healthcare, BFS, and CMT, pipeline buildup and conversion ,and gradual improvement in the business environment in the provider and collections market. Margin guidance for 10.5-11% guidance for the FY23.
- FY23 will be a year of transition of the company's revenue composition. The business profile now is less volatile and provides a strong base for sustained high-quality growth. Management is confident on emerging stronger and delivering sequential growth from Q2 onwards and on normalizing margins by end of this year.
- **Segment:** The BFS negative QoQ shrunk 1.5% YoY. On the Mortgage business due to interest rate volatility and feds, commentary on inflation and interest rate increases in FY22 led to a sharper than anticipated decline in the originated market.
- The company increase its focus to increase the digital capability to cost efficiency to Mortgage clients. Added 3
- **Client:** The company has added the 11 new client most of the fin-tech and digital.
- As the consumer spending and delinquency continue to rise the company is seeing growth going ahead in FY23.
- **Acquisition:** The acquisition in ARSI integration progressing in front and in April month the company has secured one cross deal. Systematic strategic for the 3 acquisition in last 18 months and going forward will followed the same strategy.
- **Healthcare:** Its done well both qualitative and quantitative and 3-4 strategy for the growth and traditional BPO FY23-24 slightly higher than company segment.
- Mortgage (18-20% revenue): Full year basis between 120-125 mn for the and two third from servicing. 44-45mn run rate for 32-33mn going forward.
- **Capex:** The company capex for the FY23 of \$8-9mn
- Mortgage pay out acquisition -\$12 mn and Mortgage deal that the company had signed in the range of \$5-10mn for the.
- The fundamental of the economy remains strong and will see good growth in the collection business and the company has added the 3 new clients in this.
- UK financial services is slowing but will recover in coming times.
- The company's large client is strong based on the company healthy relationship. FY22 delivered single digit growth and going forward confident to deliver similar growth.
- Tax rate for FY23 will be 18-20% tax rate.

Key Financials

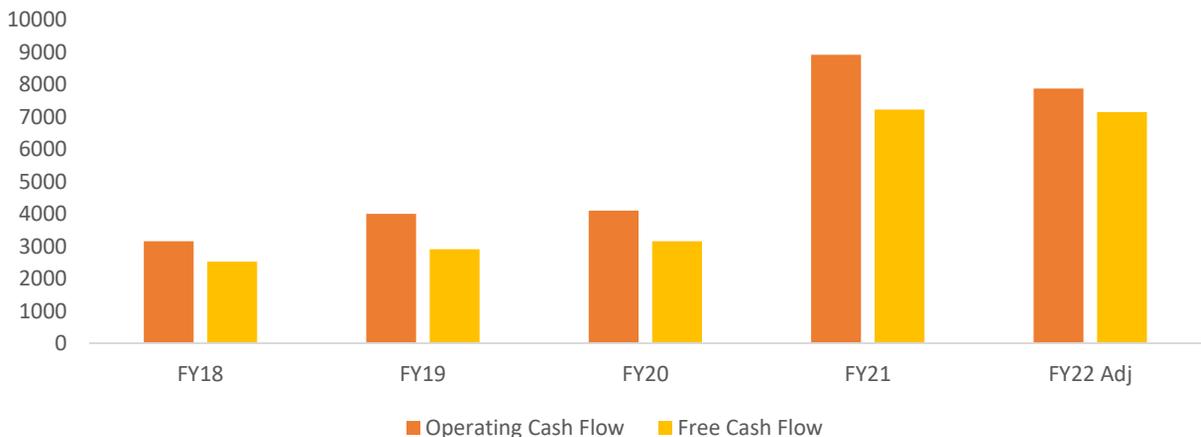
Revenue Split by Verticals



Revenue Split by Service line



Cash Flow



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Key Financials

### Income Statement (INR Cr)

Year End-March	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	5,078	5,921	6,513	7,165
<i>Change (%)</i>	23.9%	16.60%	10.0%	10.0%
Employee costs	3,467	3,947	4,364	4,800
Other expenses	807	1,015	1,140	1,204
<b>Total Expenses</b>	<b>4,274</b>	<b>4,961</b>	<b>5,504</b>	<b>6,004</b>
<b>EBITDA</b>	<b>804</b>	<b>960</b>	<b>1,010</b>	<b>1,161</b>
<b>EBIDTA Margin</b>	<b>15.84%</b>	<b>16.21%</b>	<b>15.50%</b>	<b>16.20%</b>
Depreciation	206	249	283	278
<b>EBIT</b>	<b>598</b>	<b>710</b>	<b>726</b>	<b>882</b>
<b>EBIT Margin</b>	<b>11.77%</b>	<b>12.00%</b>	<b>11.15%</b>	<b>12.31%</b>
Interest	52	64	69	72
Other Income	1	1	1	1
<b>PBT</b>	<b>547</b>	<b>647</b>	<b>658</b>	<b>811</b>
Exceptional Items	115	0	0	0
<b>PBT after exceptional Items</b>	<b>432</b>	<b>647</b>	<b>658</b>	<b>811</b>
Tax	70	111	118	142
<i>Rate (%)</i>	16.2%	17.1%	18.0%	17.5%
<b>PAT</b>	<b>362</b>	<b>537</b>	<b>539</b>	<b>669</b>
<b>Consolidated PAT</b>	<b>362</b>	<b>537</b>	<b>539</b>	<b>669</b>
<i>Change (%)</i>	6.5%	48.3%	0.5%	24.1%

### Cash Flow Statement (INR Cr)

Year End-March	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>432</b>	<b>647</b>	<b>658</b>	<b>811</b>
Cash From Operating Activities	1,049	798	1,204	1,102
Tax	70	94	118	142
Net Cash From Operations	979	704	1,085	961
<b>Capex</b>	<b>(173)</b>	<b>12</b>	<b>(65)</b>	<b>(65)</b>
Cash From Investing	(350)	(595)	(164)	(164)
Borrowings	(267)	390	(50)	(50)
<b>Finance cost paid</b>	<b>(51)</b>	<b>(58)</b>	<b>(69)</b>	<b>(72)</b>
Cash From Financing	(689)	(158)	(363)	(366)
<b>Net Increase/ Decrease in Cash</b>	<b>-59</b>	<b>-49</b>	<b>558</b>	<b>430</b>
<b>Cash at the beginning of the year</b>	<b>191</b>	<b>132</b>	<b>83</b>	<b>641</b>
<b>Cash at the end of the year</b>	<b>141</b>	<b>83</b>	<b>641</b>	<b>1,071</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

### Balance Sheet (INR Cr)

Year End-March	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	696	697	697	697
Reserves & Surplus	2,103	2,336	2,631	3,056
Non controlling interest	1	0	0	0
<b>Total Equity</b>	<b>2,800</b>	<b>3,033</b>	<b>3,329</b>	<b>3,754</b>
<b>Loan Funds</b>				
Deferred Tax Liability (Net)	47	96	96	96
<b>Total Liability</b>	<b>4,830</b>	<b>5,709</b>	<b>5,731</b>	<b>6,154</b>
<b>Application of Funds</b>				
Gross Block	897	1,092	1,156	1,221
Less: Depreciation	662	742	880	1,039
Net Block	235	350	276	182
CWIP	0	0	0	0
Financial Assets	586	1,195	1,624	2,139
Investments	83	119	119	119
<b>Sundry debtors</b>	<b>577</b>	<b>961</b>	<b>839</b>	<b>923</b>
Cash and bank	137	90	641	1,071
Other Current Assets	153	199	199	199
Total Current assets	1,231	1,421	1,850	2,364
Total Current liabilities	1,217	1,232	1,269	1,316
Total Non-Current assets	<b>3,598</b>	<b>4,288</b>	<b>3,881</b>	<b>3,789</b>
<b>Capital Employed</b>	<b>4,830</b>	<b>5,709</b>	<b>5,731</b>	<b>6,154</b>

### Key Ratios

Year End-March	FY21	FY22	FY23E	FY24E
<b>Per share (Rs)</b>				
EPS	5.3	7.9	7.7	9.6
BVPS	40	44	48	54
<b>Valuation (x)</b>				
P/E	21.6	14.5	14.8	12.0
P/BV	2.9	2.6	2.4	2.1
EV/EBITDA	10.5	9.3	8.1	6.6
<b>Return ratio (%)</b>				
EBIDTA Margin	15.8%	16.2%	15.5%	16.2%
EBIT Margin	11.8%	12.0%	11.2%	12.3%
PAT Margin	7.1%	9.1%	8.3%	9.3%
ROE	12.9%	17.7%	16.2%	17.8%
ROCE	12.4%	12.4%	12.7%	14.3%
<b>Leverage Ratio (%)</b>				
Total D/E	0.2	0.3	0.2	0.2
<b>Turnover Ratios</b>				
Asset Turnover (x)	4.1	4.2	3.5	3.0
Receivable Days	41	47	47	47
Payable days	13	14	14	14

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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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