

CMP: INR 336

Rating: Accumulate

Target Price: INR 380

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)	23,286
52w H/L (INR)	423/265

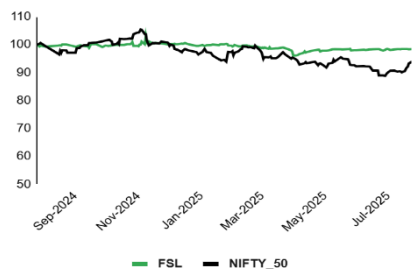
Shareholding Pattern %

(As on Mar, 2025)

Promoters	53.66
Public & Others	44.11

Stock Performance (%)	1m	3m	12m
FSL	-10.8	-1.9	23.1
Nifty	-2.59	2.1	-0.01

FSL Vs Nifty



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Firstsource Solutions Ltd (FSOL) in Q1FY26, Reported FY26 constant currency revenue growth guidance raised to 13-15% in CC from 12-15% in the previous quarter and EBIT Margin 11.25-12%. The company reported revenue at INR 2218 Cr (USD 259 Mn above the estimate of USD 256 Mn), y/y growth of 2.6% QoQ/+23.8% YoY in INR term above our estimate of INR 2185 Cr. YoY constant currency growth of 19.2%/QoQ constant currency growth of 1.6%. EBIT Margin at INR 249.8 Cr in-line with our estimate of INR 251.5 Cr. Margin at 11.3 % in line with our estimate of 11.5% PAT at INR 169.3 Cr above our estimate of INR 168.5 Cr. EPS of INR 2.45 against INR 2.3 in Q1FY25. Total headcount of 34,495 employees down by 156 QoQ/ Up 5264. Onshore down by 340bps to 58.8%.

Strong Momentum in BFSI Segment: BFSI continues to be the largest vertical for Firstsource, contributing significantly to revenue. This segment is showing consistent growth across both existing and new client mandates. The company expects continued growth in BFSI, supported by expansion in collections and mortgage volumes. Tailwinds from interest rate stability and account wins in UK & US BFSI markets will likely aid growth in the coming quarters.

Recovery in Healthcare Business led by strong demand: The Healthcare vertical showed signs of recovery, particularly in the Provider business, which bounced back strongly after softness in FY25. New client additions and ramp-ups are underway. Healthcare is expected to return to steady-state growth from Q2FY26 onwards, with margin improvements and revenue contribution normalizing as volume ramps up.

Digital & Tech-Led Transformation Focus: The company continues to drive digital transformation through automation, analytics, and platform-led solutions, leading to improved client retention and new pipeline opportunities. With increasing demand for digital-first operations. The company expects digital revenues to contribute a higher share over the next 4-6 quarters, especially in BFSI and Healthcare.

Margin expansion on card led by cost optimization: Q1FY26 saw improved margins due to better cost management, stable headcount, and reduced travel and discretionary expenses. EBITDA margins showed sequential improvement. The company expects to maintain and gradually improve margins in FY26 as operational leverage kicks in with ramp-ups and platform adoption, despite some wage and inflationary pressures.

Outlook and valuation

FSL raised its FY26 revenue growth guidance to 13-15% YoY in constant currency (from 12-15%) on the back of resilient Q1FY26, where revenue grew +1.6% QoQ and 19.2% YoY CC, marking the 7th consecutive quarter of growth. Q1 EBIT margin stood at 11.3%, up 10 bps QoQ, with FY26E margin guidance maintained at 11.25-12%, supported by AI, offshore hiring, and outcome-based pricing levers. Healthcare continues to lead growth with strong demand and large deal ramp-ups, while BFS remains stable in the US and soft in the UK. Collections is scaling well with UK expansion through the PDC acquisition, which is expected to be margin and EPS accretive. GenAI is moving from pilots to scaled deployments, transforming delivery models and enhancing deal sizes. We expect FSL Revenue/EBITDA/PAT to grow at a CAGR of 14.3%/18.1%/~19.8%, respectively, over FY26e-28e. **We value FSL at a PE of 25x to its FY28e EPS of INR 15.2, which yields a target price of INR 380 per share. We maintain our rating to an Accumulate on the stock.**

Exhibit 1 Financial Performance

Particular	FY25	FY26E	FY27E	FY28E
Sales	7,980	8,936	10,152	11,656
EBIT	881	1,002	1,210	1,399
EBIT Margin	11.0%	11.2%	11.9%	12.0%
Reported PAT	595	737	907	1,058
PE (x)	38.9	31.7	25.8	22.1
EPS	8.6	10.6	13.0	15.2

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Performance (Consolidated)

Consolidated (in INR Cr)	Q1FY26	Q4FY25	Q1FY25	Q-o-Q	Y-o-Y
Revenue (Mn USD)	259	250	215	3.6%	20.5%
Net Revenue	2,218	2,161	1,791	2.6%	23.8%
Employee cost	1,321	1,352	1,127	-2.3%	17.2%
Other Expenses	550	477	394	15.2%	39.4%
EBITDA	347	333	270	4.3%	28.6%
EBITDA margin %	15.7%	15.4%	15.1%	25bps	58bps
Depreciation	97	91	73	7.3%	33.5%
EBIT	249.8	242.2	197.0	3.1%	26.8%
EBIT margin %	11.3%	11.2%	11.0%	6bps	27bps
Other Income	7	2	2	-	-
Finance costs	43	43	32	1.9%	37.5%
PBT	213.2	201.7	167.3	5.7%	27.5%
Exceptional item	-	-	-		
PBT and share net profit	213.229	201.713	167.256	5.7%	27.5%
Tax Expense	44	41	32	7.0%	37.2%
Effective tax rate %	20.6%	20.3%	19.1%	25bps	145bps
PAT	169.3	160.7	135.2	5.4%	25.2%
Non-controlling interest	-0	0	-		
Consolidated PAT	169.3	160.7	135.249	5.4%	25.2%
PAT margin %	7.6%	7.4%	7.6%	20bps	8bps
EPS (INR)	2.45	2.33	1.97	5.2%	24.4%
Consolidated (in INR Cr)	Q1FY26	Q4FY25	Q1FY25	Q-o-Q	Y-o-Y
Banking and Financial Services	723	723	649	7.1%	16.1%
Healthcare	733	733	637	3.3%	33.3%
Communication, Media and Technology	456	456	398	7.4%	16.0%
Diverse Industries	255	255	101	-8.1%	147.1%

Source: Arihant Research, Company Filings

Firstsource-Q1FY26 Concall KTAs

Management reiterated FY26 CC revenue growth guidance of 13–15%.

Margin guidance of 11.25–12% reaffirmed; expect 50–60 bps improvement YoY.

Free cash flow of INR 3.56 Bn in Q1 and turned positive after last year's cash outflows.

Net debt reduced QoQ and improved leverage and balance sheet strength.

Segments: BFSI and Healthcare segments remain strong, together accounting for ~66% of revenue. CMT segment posted 18% YoY growth, driven by telecom and media sub-verticals. Diverse Industries showing healthy momentum, contributing to vertical diversification.

Geography: UK clients increasingly offshoring, due to macro/Ukraine-linked cost management. Australia continues to perform well; ramp-up expected through FY26. North America contributed ~68.7% of revenue; QoQ growth of 5%.

Offshore/nearshore contribution rose to 41.2%, aiding structural margin expansion. Shift towards right-shoring continues and a strategic margin lever.

71 new logos added in Q1, including 9 strategic logos. 17 new logos across verticals, reflecting strong client acquisition momentum.

Recent large deal wins indicate healthy demand and transformation-led pipeline. Client decision-making is stable, with increased digital-first engagements.

The company achieved a record-high pipeline in Q1, adding 17 new clients, including 9 strategic logos. The total ACV booked during the quarter was the highest in the past five quarters, with the average deal size from new logos rising 16% YoY over the last four quarters. Four large deals with ACVs exceeding \$5 mn were signed during the quarter—all within the healthcare payer segment. These included AI-led, BPaaS, multi-tower, and outcome-based engagements, with the average deal size increasing 40% YoY.

Cost & Efficiency: ~50% reduction in hiring costs, driven by automation and internal efficiencies. Two-phase wage hike planned: juniors in Q2 (July), mid-levels in Q3 (Oct). Wage hikes expected to be margin-neutral, supported by operational levers. Gross margin at ~37%, indicating headroom to absorb cost escalations.

Attrition declined 30 bps QoQ, though it remains elevated at ~28.9%.

Net headcount declined by 156 in Q1 and reflects efficiency and right-shoring. 80% of gross hires were in offshore/nearshore geographies.

Continued focus on “UnBPO” playbook outcome-based, transformational model. Building AI and agentic AI capabilities and no additional headcount required. Transformation-led offerings now seeing increased cross-sell and upsell traction.

Management sees no slowdown in pipeline conversion or demand environment.

Digital-first and automation strategy gaining strong client traction.

The company is not chasing revenue-driven M&A focus is on EPS/EBIT accretive acquisitions.

M&A: Completed 3 acquisitions so far and actively evaluating more. Acquisition strategy focuses on AI, tech, and IP capabilities not just revenue. All M&A deals must be EPS/EBIT accretive; no set frequency.

Operating Metrics	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Revenue by Vertical							
Banking & Financial Services	38.30%	37.30%	36.40%	34.40%	32.40%	33.40%	32.50%
Healthcare	33.50%	32.90%	35.70%	36.30%	34.00%	33.80%	33.40%
Communications Media & Tech	22.50%	23.60%	22.30%	21.30%	20.30%	21.00%	22.40%
Diverse Industries	5.70%	6.20%	5.60%	8.00%	13.30%	11.80%	11.70%
Revenue by Geography							
US	65.40%	65.00%	68.20%	68.50%	66.30%	67.70%	68.70%
Europe, Middle East, and Africa	34.50%	34.90%	31.80%	31.40%	33.60%	31.50%	30.10%
ROW	0.10%	0.10%	0.00%	0.10%	0.10%	0.80%	1.20%
Revenue by Delivery							
Offshore	30.30%	31.40%	35.00%	35.80%	40.10%	37.80%	41.20%
Onshore	69.70%	68.60%	65.00%	64.20%	59.90%	62.20%	58.80%
Top Clients Revenue							
Top 5 clients (share of total revenues)	35.80%	36.70%	34.60%	32.50%	29.20%	29.30%	29.60%
Top 10 clients (share of total revenues)	52.00%	52.60%	51.50%	48.60%	43.50%	43.70%	42.60%
Other Metrics							
Total employees (end of period)	25947	27940	29231	32898	34144	34651	34495
Net Addition	1994	1993	1291	3667	1246	507	156
Attrition (TTM)	37.70%	35.40%	32.00%	30.90%	31.40%	29.80%	28.90%
Client Distribution							
US\$ 1m+ clients (nos.)	104	103	100	105	107	116	141
US\$ 5m+ clients (nos.)	25	25	25	26	28	30	38
US\$ 10m+ clients (nos.)	13	13	13	13	14	15	17
US\$ 20m+ clients (nos.)	8	8	9	11	10	10	11
US\$ 50m+ clients (nos.)	2	2	2	2	2	2	2
Revenue by Currency							
USD	64.90%	64.80%	67.90%	68.20%	64.90%	65.70%	67.90%
GBP	34.40%	34.40%	31.40%	30.90%	34.20%	32.70%	30.10%
Others	0.70%	0.80%	0.70%	0.90%	0.90%	1.60%	2.00%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Cr)					
Year End-March	FY24	FY25	FY26E	FY27E	FY28E
Revenue USD term	952.0	944.0	1051.4	1195.8	1372.9
Change (%)	26.1%	-0.8%	11.4%	13.7%	14.8%
Revenues	6,336	7,980	8,936	10,152	11,656
Change (%)	5.2%	25.9%	12.0%	13.6%	14.8%
Employee costs	3,909	4,996	5,764	6,416	7,367
Other expenses	1,470	1,777	1,868	2,152	2,471
Total Expenses	5,380	6,773	7,632	8,568	9,838
EBITDA	956	1,208	1,305	1,584	1,818
EBITDA Margin	15.09%	15.13%	14.60%	15.60%	15.60%
Depreciation	260	327	302	374	420
EBIT	696	881	1002	1210	1399
EBIT Margin	10.99%	11.03%	11.22%	11.92%	12.00%
Interest	103	148	102	101	99
Other Income	37	-1	-2	-3	-9
PBT	630	732	899	1,106	1,291
Exceptional Items	-	-8.81	-	-	-
PBT after exceptional Items	630	741	899	1,106	1,291
Tax	115	146	162	199	232
Rate (%)	18.3%	19.7%	18.0%	18.0%	18.0%
PAT	515	594	737	907	1,058
Margin	8%	7%	8%	9%	9%
Consolidated PAT	515	595	737	907	1,058
Change (%)	0.2%	15.5%	24.0%	23.0%	16.7%

Balance Sheet (INR Cr)					
Year End-March	FY24	FY25	FY26E	FY27E	FY28E
Sources of Funds					
Share Capital	697	697	697	697	697
Reserves & Surplus	3,003	3,401	3,894	4,557	5,371
Non controlling interest	0	0	0	0	0
Total Equity	3,701	4,098	4,591	5,254	6,069
Loan Funds	805	1,533	849	839	828
Deferred Tax Liability (Net)	147	165	165	165	165
Total Liability	6,076	7,922	7,682	8,357	9,183
Application of Funds					
Gross Block	1,221	1,286	1,586	1,886	2,186
Less: Depreciation	1,027	1,194	1,448	1,788	2,181
Net Block	194	92	138	99	5
CWIP	17	49	49	49	49
Financial Assets	1,491	2,121	2,578	3,214	4,047
Investments	30	62	62	62	62
Sundry debtors	1,161	1,686	1,161	1,161	1,161
Cash and bank	188	167	1,149	1,785	2,618
Other Current Assets	149	289	289	289	289
Total Current assets	1,535	2,224	2,681	3,317	4,149
Total Current liabilities	833	1,238	1,245	1,268	1,290
Total Non-Current assets	4,541	5,698	5,000	5,040	5,034
Capital Employed	6,076	7,922	7,682	8,357	9,183

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement (INR Cr)					
Year End-March	FY24	FY25	FY26E	FY27E	FY28E
PBT	630	741	899	1,106	1,291
Cash From Operating Activities	716	823	1,828	1,581	1,810
Tax	72	(122)	162	199	232
Net Cash From Operations	644	701	1,667	1,382	1,577
Capex	(85)	(241)	(300)	(300)	(300)
Cash From Investing	(58)	(745)	(400)	(400)	(400)
Borrowings	(29)	858	(20)	(10)	(11)
Finance cost paid	(101)	(158)	(102)	(101)	(99)
Cash From Financing	(564)	23	(274)	(347)	(347)
Net Increase/ Decrease in Cash	22	-21	993	634	830
Cash at the beginning of the year	152	175	155	1,149	1,785
Cash at the end of the year	174	155	1,149	1,785	2,618

Key Ratios					
Year End-March	FY24	FY25	FY26E	FY27E	FY28E
Per share (INR)					
EPS	7.3	8.6	10.6	13.0	15.2
BVPS	53	59	66	75	87
Valuation (x)					
P/E	45.7	38.9	31.7	25.8	22.1
P/BV	6.3	5.7	5.1	4.5	3.9
EV/EBITDA	25.1	20.5	17.7	14.2	11.9
Return ratio (%)					
EBIDTA Margin	15.1%	15.1%	14.6%	15.6%	15.6%
EBIT Margin	11.0%	11.0%	11.2%	11.9%	12.0%
PAT Margin	8.1%	7.5%	8.2%	8.9%	9.1%
ROE	13.9%	14.5%	16.1%	17.3%	17.4%
ROCE	11.5%	11.1%	13.1%	14.5%	15.2%
Leverage Ratio (%)					
Total D/E	0.2	0.4	0.2	0.2	0.1
Turnover Ratios					
Asset Turnover (x)	4.1	3.6	3.3	3.1	2.8
Receivable Days	63	53	47	42	36
Payable days	15	16	16	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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