

Strong deal wins; Upward revision in guidance

CMP: INR 354

Rating: Accumulate

Target Price: INR 406

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)	24,642
52w H/L (INR)	423/177

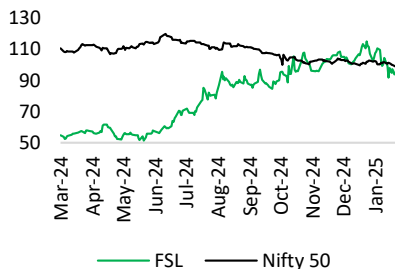
Shareholding Pattern %

(As on Dec, 2024)

Promoters	53.66
Public & Others	44.11

Stock Performance (%)	1m	3m	12m
FSL	-9.3	-6.8	68.8
Nifty	-0.6	-2.6	7.4

FSL Vs Nifty



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Firstsource Solutions Ltd (FSOL) in Q3FY25, Good top line and margin align with our estimates. Constant currency growth of 27.7% YoY/ 7.6% QoQ. The company reported revenue at INR 2,102 Cr (USD 249 mn above the estimate of USD 245 mn), y/y growth of 8.3% QoQ/+30% YoY in INR term above our estimate of INR 2,060 Cr. EBIT Margin at INR 233 Cr above our estimate of INR 226 Cr. Margin at 11% in-line with our estimate of 11.1%. PAT at INR 160.3 Cr in line with our estimate of INR 161 Cr. Includes one-time gain of INR 8.8 Cr. EPS of INR 2.33 vs of INR 2.01 in Q2FY25.

Strong deal wins led by marquee client: Deal discussions have picked up in recent weeks, with several closures expected in Q4. The CMP vertical saw 3.4% QoQ and 14.2% YoY growth in constant currency, adding one new logo in Q3. This remains a fast-growing segment, driven by marquee consumer tech clients. A major AI deal was signed with a top consumer tech firm, bringing the total to four of the top five in the US. The diversified portfolio grew 80% QoQ and 193% YoY, boosted by the Ascensos acquisition. NA grew 1.3% QoQ and 28% YoY, while Europe saw 22% QoQ and 28% YoY growth. UK firms, facing cost pressures, are exploring offshore/nearshore options, with strong interest in SA & Romania.

Synergy playing out well with Ascensos: Over the past five quarters, a realignment of the capability portfolio has been made, focusing on organic and inorganic expansion while enhancing a tech-first approach. Operations in Australia were established last year, leading to major wins, including a top telco and a leading healthcare insurer in Q3, with a strong deal pipeline. Nearshore delivery was expanded with the Ascensos acquisition, boosting outsourcing capacity for UK & US clients and adding multilingual support for global consumer tech clients. Ascensos also strengthens the retail vertical.

AI-Driven Growth and Market Expansion: AI services are growing rapidly, now partnering with four of the top five consumer tech firms. AI and automation are embedded in every solution, strengthening competitiveness against incumbents. Platform modernization includes AI-driven personalization and mortgage-specific language models for efficiency. Expanding work with AI models and agent-like AI is driving market differentiation and growth.

Valuations

FY25, revenue growth guidance revised upward to 21.8% to 22.3% in CC (From 19.5-20.5%), with EBIT margins anticipated to remain between 11% and 11.5%, excluding one-time acquisition charges. The focus remains on AI-led transformation projects and continued margin expansion in FY26, with an expected margin improvement of 50-75bps, supported by a strong deal pipeline. Some short-term cost pressures may arise due to growth-related investments. We expect FSL Revenue/EBITDA/PAT to grow at a CAGR of 13.6%/17.7%/~21%, respectively, over FY24-27E. We value FSL at a PE of 29x to its FY27E EPS of INR 14, which yields a target price of INR 406 per share. We maintain our rating to an Accumulate on the stock.

Exhibit 1 Financial Performance

Particular	FY24	FY25E	FY26E	FY27E
Sales	6,336	7,890	8,950	10,167
EBITDA	956	1,144	1,342	1,586
EBITDA Margin	15.1%	14.5%	15.0%	15.60%
Reported PAT	515	666	800	976
PE (x)	48.2	37.0	30.8	25.3
EPS	7.3	9.6	11.5	14.0

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Performance (Consolidated)

Consolidated (in INR Cr)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	249	230	192	8.3%	29.7%
Net Revenue	2,102	1,925	1,597	9.2%	31.7%
Employee cost	1,307	1,210	989	8.0%	32.1%
Other Expenses	478	428	370	11.7%	29.1%
EBITDA	318	287	237	10.6%	34.0%
EBITDA margin %	15.1%	14.9%	14.9%	19bps	26bps
Depreciation	84	79	66	6.6%	27.4%
EBIT	233.3	208.1	170.9	12.1%	36.5%
EBIT margin %	11.1%	10.8%	10.7%	29bps	39bps
Other Income	-2	-3	15	-	-
Finance costs	39	34	25	14.5%	54.7%
PBT	191.8	171.0	160.8	12.2%	19.3%
Exceptional item	-9	-	-		
PBT and share net profit	200.654	171.028	160.790	17.3%	24.8%
Tax Expense	40	33	32	23.0%	25.9%
Effective tax rate %	21.0%	19.2%	19.9%	184bps	109bps
PAT	160.3	138.2	128.7	16.0%	24.5%
Non-controlling intrest	0	-	-0		
Consolidated PAT	160.304	138.211	128.829	16.0%	24.4%
PAT margin %	7.6%	7.2%	8.1%	45bps	-44bps
EPS (INR)	2.33	2.01	1.88	15.9%	23.9%
Consolidated (in INR Cr)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Banking and Financial Services	676	664	610	1.7%	10.7%
Healthcare	710	703	535	1.0%	32.6%
Communication, Media and Technology	425	412	358	3.1%	18.5%
Diverse Industries	278	154	91	80.2%	206.0%

Source: Arihant Research, Company Filings

Firstsource Solutions Ltd – Q3FY25 Concall Highlights

For FY25, revenue growth guidance revised upward to 21.8% to 22.3% in CC (From 19.5-20.5%), with EBIT margins anticipated to remain between 11% and 11.5%, excluding one-time acquisition charges. The focus remains on AI-led transformation projects and continued margin expansion in FY26, with an expected margin improvement of 50-75bps, supported by a strong deal pipeline. Some short-term cost pressures may arise due to growth-related investments.

Vertical Performance

- BFS segment grew 1.6% QoQ and 8.1% YoY in constant currency, adding 7 new logos.
- HLS segment recorded flat QoQ revenue but grew 31% YoY, adding 5 new logos.
- Communications, Media & Technology segment grew 3.4% QoQ and 14.2% YoY, securing a large AI deal from a top consumer tech company.
- The Retail & Utilities segment grew 80% QoQ and 193% YoY, driven by the full-quarter impact of the Ascensos acquisition.

Other Highlights

- Headcount increased by 1,246 in Q3 FY25, bringing the total to 34,144 employees. The 12-month attrition rate rose slightly to 31.4% from 30.9% in Q2.
- North America grew 1.3% QoQ and 28% YoY in constant currency. Europe experienced 22% QoQ and 28% YoY growth, driven by strong demand for nearshore delivery in South Africa and Romania.
- Revenue diversification improved, with the share of revenue from the top 5 clients reducing to 29.2% from 35.8% YoY and the top 10 clients to 43.5% from 52%.
- Focusing on organic growth with potential opportunistic acquisitions, the company aims to build an industry-leading business in FY25.
- The company has expanded its sales team by 50% in the last 12 months and is increasing its offshore and near-shore delivery mix from 26% to 40%.
- The company is embedding AI in almost every solution, developing domain-specific AI models such as a mortgage-specific language model, and working with both closed and open-source AI models. Additionally, it is exploring agent-like AI capabilities.
- The company is targeting an annual margin improvement of 50-75 basis points.
- Three large deals were signed, maintaining momentum from previous quarters. The Q3 exit deal pipeline reached its highest-ever levels. There were 13 new client wins, including five strategic clients with a potential annual revenue of over \$5 Mn.
- The company acquired Jaipur-based AI startup Acunai to enhance its AI development capabilities. The acquisition of Ascensos is driving growth in the retail and utilities sectors.

Operating Metrics	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Revenue by Vertical					
Banking & Financial Services	38.30%	37.30%	36.40%	34.40%	32.40%
Healthcare	33.50%	32.90%	35.70%	36.30%	34.00%
Communications Media & Tech	22.50%	23.60%	22.30%	21.30%	20.30%
Diverse Industries	5.70%	6.20%	5.60%	8.00%	13.30%
Revenue by Geography					
US	65.40%	65.00%	68.20%	68.50%	66.30%
Europe, Middle East, and Africa	34.50%	34.90%	31.80%	31.40%	33.60%
ROW	0.10%	0.10%	0.00%	0.10%	0.10%
Revenue by Delivery					
Offshore	30.30%	31.40%	35.00%	35.80%	40.10%
Onshore	69.70%	68.60%	65.00%	64.20%	59.90%
Top Clients Revenue					
Top 5 clients (share of total revenues)	35.80%	36.70%	34.60%	32.50%	29.20%
Top 10 clients (share of total revenues)	52.00%	52.60%	51.50%	48.60%	43.50%
Other Metrics					
Total employees (end of period)	25947	27940	29231	32898	34144
Net Addition	1994	1993	1291	3667	1246
Attrition (TTM)	37.70%	35.40%	32.00%	30.90%	31.40%
Client Distribution					
US\$ 1m+ clients (nos.)	104	103	100	105	107
US\$ 5m+ clients (nos.)	25	25	25	26	28
US\$ 10m+ clients (nos.)	13	13	13	13	4
US\$ 20m+ clients (nos.)	8	8	9	11	10
US\$ 50m+ clients (nos.)	2	2	2	2	2
Revenue by Currency					
USD	64.90%	64.80%	67.90%	68.20%	64.90%
GBP	34.40%	34.40%	31.40%	30.90%	34.20%
Others	0.70%	0.80%	0.70%	0.90%	0.90%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenue USD term	765.0	944.7	1052.9	1197.6
Change (%)	1.3%	23.5%	11.5%	13.7%
Revenues	6,336	7,890	8,950	10,167
Change (%)	5.2%	24.5%	13.4%	13.6%
Employee costs	3,909	5,089	5,773	6,426
Other expenses	1,470	1,657	1,835	2,155
Total Expenses	5,380	6,746	7,607	8,581
EBITDA	956	1,144	1,342	1,586
EBIDTA Margin	15.09%	14.50%	15.00%	15.60%
Depreciation	260	239	286	336
EBIT	696	905	1056	1250
EBIT Margin	10.99%	11.47%	11.80%	12.29%
Interest	103	105	102	101
Other Income	37	12	22	42
PBT	630	812	976	1,190
Exceptional Items	-	-	-	-
PBT after exceptional Items	630	812	976	1,190
Tax	115	146	176	214
Rate (%)	18.3%	18.0%	18.0%	18.0%
PAT	515	666	800	976
Margin	8%	8%	9%	10%
Consolidated PAT	515	666	800	976
Change (%)	0.2%	29.4%	20.1%	22.0%

Balance Sheet (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	697	697	697	697
Reserves & Surplus	3,003	3,426	3,982	4,714
Non controlling interest	0	0	0	0
Total Equity	3,701	4,123	4,679	5,411
Loan Funds				
Deferred Tax Liability (Net)	147	147	147	147
Total Liability	6,083	6,568	7,126	7,872
Application of Funds				
Gross Block	1,221	1,286	1,586	1,886
Less: Depreciation	1,027	1,194	1,432	1,734
Net Block	194	92	154	152
CWIP	17	17	17	17
Financial Assets	1,488	2,393	2,824	3,493
Investments	30	30	30	30
Sundry debtors	1,161	1,161	1,161	1,161
Cash and bank	188	1,093	1,524	2,193
Other Current Assets	149	149	149	149
Total Current assets	1,537	2,441	2,873	3,541
Total Current liabilities	833	835	857	881
Total Non-Current assets	4,546	4,126	4,253	4,330
Capital Employed	6,083	6,568	7,126	7,872

Cash Flow Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
PBT	630	812	976	1,190
Cash From Operating Activities	717	1,156	1,364	1,628
Tax	72	146	176	214
Net Cash From Operations	645	1,010	1,189	1,413
Capex	(85)	(66)	(300)	(300)
Cash From Investing	(58)	(166)	(400)	(400)
Borrowings	(29)	(20)	(20)	(10)
Finance cost paid	(101)	(105)	(102)	(101)
Cash From Financing	(564)	73	(358)	(346)
Net Increase/ Decrease in Cash	23	917	431	668
Cash at the beginning of the year	152	175	1,093	1,524
Cash at the end of the year	175	1,093	1,524	2,193

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	7.3	9.6	11.5	14.0
BVPS	53	59	67	78
Valuation (x)				
P/E	48.2	37.0	30.8	25.3
P/BV	6.7	6.0	5.3	4.6
EV/EBITDA	26.4	21.4	17.9	14.7
Return ratio (%)				
EBIDTA Margin	15.1%	14.5%	15.0%	15.6%
EBIT Margin	11.0%	11.5%	11.8%	12.3%
PAT Margin	8.1%	8.4%	8.9%	9.6%
ROE	13.9%	16.2%	17.1%	18.0%
ROCE	11.4%	13.8%	14.8%	15.9%
Leverage Ratio (%)				
Total D/E	0.2	0.2	0.2	0.2
Turnover Ratios				
Asset Turnover (x)	4.1	3.2	3.1	2.9
Receivable Days	63	54	47	42
Payable days	15	14	12	11

Source: Arianth 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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