

**CMP: INR 354**

**Rating: Accumulate**

**Target Price: INR 410**

**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)        | 24,711              |
| 52w H/L (INR)           | 423/177             |

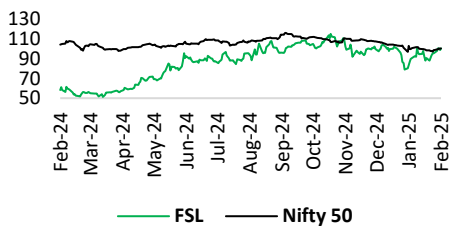
**Shareholding Pattern %**

(As on Mar, 2025)

|                 |       |
|-----------------|-------|
| Promoters       | 53.66 |
| Public & Others | 44.11 |

| Stock Performance (%) | 1m   | 3m   | 12m  |
|-----------------------|------|------|------|
| FSL                   | 4.2  | 9.1  | 62.7 |
| Nifty                 | -0.6 | -2.6 | 7.4  |

**FSL Vs Nifty**



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Firstsource Solutions Ltd (FSOL) in Q4FY25, Reported slightly weak numbers.Guidance, FY26 constant currency revenue growth guidance at 12%-15% and operating margin at 11.25%-12%; Achieves US\$1bn annualized revenue run-rate. The company reported revenue at INR 21,610 mn (US\$ 250 mn slightly below our estimate of US \$ 255 mn grew by 0.4% QoQ/24.4% YoY), growth of 2.8% QoQ/29.4% YoY against our estimate of INR 22,051 and growth of 2.1% QoQ/25.0% YoY in Constant Currency. Operating Margin at INR 2,422 mn below our estimate of INR 2517 mn. Margin at 11.2% in-line our estimate of 11.4% led by cost management and strong pipeline grew by 11bps QoQ/25bps YoY.PAT at INR 1,606 mn below our estimate of INR 1752 mn led by higher depreciation and other expenses.EPS of INR 2.3 against of INR 1.94 in Q4FY24.Segment: 1) Healthcare grew by 33.3% YoY/+7.1% QoQ followed by Mortgage business grew by 16.1% YoY/+3.3% QoQ, Communication grew by 16% YoY/7.4% and Diverse industries grew by 147.1% YoY/-8.1% QoQ.Total employees increased by 507 to 34651 in Q4FY25. Offshore and nearshore hires constituted 80% of the additions, aligned with evolving delivery models. Offshore revenue mix was up by 230bps to 62.2%.Attrition down by 160bps QoQ to 29.80%.Talent development remained a top priority, with over 200,000 digital learning hours delivered in FY25 across. GenAI, automation, and domain-specific capabilities. > 2,500 internal moves were facilitated under "Internal Seeding" initiative.

**Margin Performance and Outlook:** EBIT margin of 11.2%, up 10 bps QoQ/ up 20 bps YoY, while the FY25 EBIT margin stood at 11.1% (excluding one-offs), within the guided range of 11–11.5%. For FY26, the company is guiding for an EBIT margin of 11.25–12%. Targets 50–75 bps margin improvement annually over the next 3–4 years to align with peers, identifying 37 margin levers across 9 initiatives including offshoring, account transformation, AI automation, operational improvements, pricing actions, talent cost rationalization, and facility optimization. Margins have steadily improved over the last three quarters, supported by investments in industry-leading growth during FY25, and are expected to expand further as the offshore/nearshore shift drives accretive benefits, with reinvestment moderating ahead.

**Strong Deal Wins and ACV Performance:** ACV growing over 60% YoY. The company secured 14 large deals during the year, including 4 deals with ACV above \$10Mn the highest number of large deals in its history. In Q4 alone, they signed 5 large deals, defining a "large deal" as one with ACV over \$5Mn. Among these, the standout was their largest-ever healthcare deal, a 5-year BPaaS contract with steady-state ACV well over \$50Mn. While specific TCV figures were not disclosed, the surge in ACV and the nature of the wins many being transformative with staggered ramp-ups indicate strong underlying growth momentum.

**Valuations**

FY25 inorganic growth was 7%, and FY26 revenue is guided at 12–15% YoY CC with an EBIT margin of 11.25–12% (Includes 3% contribution from acquisitions). Broad-based growth is expected across healthcare, utilities, and financial services, with some deal conversions likely in Q1FY26. Growth is projected to stay at the upper end of the industry band, supported by AI-driven transformation and operational efficiency. Significant margin expansion over the past three quarters is expected to continue through operational improvements, offshoring, pricing actions, and AI adoption. While H2 is typically stronger than H1 and retail seasonality will impact FY26, no pipeline slowdown is seen yet, and client demand for AI-driven transformation remains strong. We expect FSL Revenue/EBITDA/PAT to grow at a CAGR of 14.3%/16.5%/~17.5%, respectively, over FY25–28E. **We value FSL at a PE of 27x to its FY28E EPS of INR 15.2, which yields a target price of INR 410 per share. We maintain our rating to an Accumulate on the stock.**

**Exhibit 1 Financial Performance**

| Particular   | FY24  | FY25  | FY26E | FY27E  | FY28E  |
|--------------|-------|-------|-------|--------|--------|
| Sales        | 6,336 | 7,980 | 8,936 | 10,152 | 11,656 |
| EBIT         | 696   | 881   | 1,038 | 1,210  | 1,399  |
| EBIT Margin  | 11.0% | 11.0% | 11.6% | 11.9%  | 12.0%  |
| Reported PAT | 515   | 595   | 766   | 907    | 1,058  |
| PE (x)       | 48.1  | 40.9  | 32.1  | 27.1   | 23.3   |
| EPS          | 7.3   | 8.6   | 11.0  | 13.0   | 15.2   |

Source: Arihant Research, Company Filings

**Exhibit 2: Quarterly Performance (Consolidated)**

| Consolidated (in INR Cr)            | Q4FY25  | Q3FY25  | Q4FY24  | Q-o-Q  | Y-o-Y  |
|-------------------------------------|---------|---------|---------|--------|--------|
| Revenue (Mn USD)                    | 250     | 249     | 201     | 0.4%   | 24.4%  |
| Net Revenue                         | 2,161   | 2,102   | 1,670   | 2.8%   | 29.4%  |
| Employee cost                       | 1,352   | 1,307   | 1,056   | 3.4%   | 28.0%  |
| Other Expenses                      | 477     | 478     | 364     | -0.1%  | 31.0%  |
| EBITDA                              | 333     | 318     | 250     | 4.8%   | 33.0%  |
| EBITDA margin %                     | 15.4%   | 15.1%   | 15.0%   | 29bps  | 41bps  |
| Depreciation                        | 91      | 84      | 67      | 7.3%   | 34.6%  |
| EBIT                                | 242.2   | 233.3   | 183.0   | 3.8%   | 32.4%  |
| EBIT margin %                       | 11.2%   | 11.1%   | 11.0%   | 11bps  | 25bps  |
| Other Income                        | 2       | -2      | 3       | -      | -      |
| Finance costs                       | 43      | 39      | 27      | 8.4%   | 60.7%  |
| PBT                                 | 201.7   | 191.8   | 159.3   | 5.1%   | 26.6%  |
| Exceptional item                    | -       | -9      | -       |        |        |
| PBT and share net profit            | 201.713 | 200.654 | 159.290 | 0.5%   | 26.6%  |
| Tax Expense                         | 41      | 40      | 26      | 1.7%   | 59.1%  |
| Effective tax rate %                | 20.3%   | 21.0%   | 16.2%   | -69bps | 415bps |
| PAT                                 | 160.7   | 160.3   | 133.5   | 0.2%   | 20.4%  |
| Non-controlling intrest             | 0       | 0       | -       |        |        |
| Consolidated PAT                    | 160.685 | 160.304 | 133.502 | 0.2%   | 20.4%  |
| PAT margin %                        | 7.4%    | 7.6%    | 8.0%    | -19bps | -56bps |
| EPS (INR)                           | 2.33    | 2.33    | 1.94    | 0.0%   | 20.1%  |
| Consolidated (in INR Cr)            | Q4FY25  | Q3FY25  | Q4FY24  | Q-o-Q  | Y-o-Y  |
| Banking and Financial Services      | 723     | 676     | 623     | 7.1%   | 16.1%  |
| Healthcare                          | 733     | 710     | 550     | 3.3%   | 33.3%  |
| Communication, Media and Technology | 456     | 425     | 393     | 7.4%   | 16.0%  |
| Diverse Industries                  | 255     | 278     | 103     | -8.1%  | 147.1% |

Source: Arihant Research, Company Filings

**Firstsource-Q4FY25 Concall KTAs**

Outlook: FY25 inorganic growth was 7%, and FY26 revenue is guided at 12–15% YoY CC with an EBIT margin of 11.25–12% (Includes 3% contribution from acquisitions). Broad-based growth is expected across healthcare, utilities, and financial services, with some deal conversions likely in Q1FY26. Growth is projected to stay at the upper end of the industry band, supported by AI-driven transformation and operational efficiency. Significant margin expansion over the past three quarters is expected to continue through operational improvements, offshoring, pricing actions, and AI adoption. While H2 is typically stronger than H1 and retail seasonality will impact FY26, no pipeline slowdown is seen yet, and client demand for AI-driven transformation remains strong.

The company is leveraging AI and automation through its "UNBPO Playbook" to disrupt the industry, seeing its \$1Bn scale as ideal. It targets 50–75 bps annual margin improvement over the next 3–4 years via right-shoring, automation, operational efficiencies, and pricing actions.

Signed 5 large deals in Q4 and 14 deals across FY25, including 5 new clients. 4 deals had an ACV over \$10Mn, leading to a 60% YoY increase in ACV for FY25.

Revenue from new deals will ramp up gradually due to staggered deal structures.

Closed the largest healthcare deal in North America in Q4 with a new client, having a steady-state ACV over \$50Mn and a 5-year contract.

Added 7 new logos in Q4, including 2 strategic ones. FY25 ended with 43 new logos, 12 of which were strategic.

BFSI vertical grew 5% QoQ and 12% YoY CC, supported by ramp-up of recent wins and seasonal collections. Exit pipeline grew 30% YoY.

Healthcare vertical posted modest sequential growth, added 4 new logos, and achieved the highest-ever quarterly ACV. Strong momentum expected to continue in FY26.

CMT vertical grew 6% QoQ and 12% YoY CC, driven by strong traction from consumer tech brands. Some margin pressure noted from ramp-up with new logos.

Diverse vertical declined 9% QoQ CC, mainly due to retail seasonality. The pipeline remains healthy despite macro uncertainties.

North America grew 3% QoQ and 13% YoY CC. Europe declined 3% QoQ CC due to increased offshore transitions. Australia maintained strong growth supported by the launch of a new offshore center.

Employee count stood at 34,651 with 507 net additions in Q4. Offshore and nearshore hires made up 80% of new hiring.

Attrition rate was 29.8% on an LTM basis, with expectations of further decline.

Effective tax rate for FY26E is projected between 19% and 21%.

DSO stood at 70 days in Q4, normalizing to 67 days.

Ended FY25 with a cash balance of \$2.2Bn and net debt of \$13.2Bn.

Capex in FY25 was double that of FY24, with 7,000 new seats added compared to 2,000+ seats in FY24. Expansion will continue in FY26.

Revenue share from top 5 and top 10 clients continued to decline, supporting diversification. MS increased by 0.5% over the last four quarters.

Macro uncertainties are driving accelerated AI adoption across industries. Strong client interest seen in Firstsource's "un-BPO" transformation model.

FY26 inorganic growth projection stands at 3%. Continued wins against larger competitors by focusing on execution and account expansion.

BPM services are less impacted by macro uncertainty compared to IT services, with strong client focus on cost optimization initiatives.

Workforce strategy focused on increasing offshore and nearshore hiring, even at lower per-employee revenues.

Strengthened salesforce over the last year, resulting in strong deal conversions.

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

Source: Arianth Research, Company Filings

## Key Financials

| Income Statement (INR Cr)   |        |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|--------|
| Year End-March              | FY24   | FY25   | FY26E  | FY27E  | FY28E  |
| Revenue USD term            | 765.0  | 944.0  | 1051.4 | 1195.8 | 1372.9 |
| Change (%)                  | 1.3%   | 23.4%  | 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  | 1,832  | 2,152  | 2,471  |
| Total Expenses              | 5,380  | 6,773  | 7,596  | 8,568  | 9,838  |
| EBITDA                      | 956    | 1,208  | 1,340  | 1,584  | 1,818  |
| EBITDA Margin               | 15.09% | 15.13% | 15.00% | 15.60% | 15.60% |
| Depreciation                | 260    | 327    | 302    | 374    | 420    |
| EBIT                        | 696    | 881    | 1038   | 1210   | 1399   |
| EBIT Margin                 | 10.99% | 11.03% | 11.62% | 11.92% | 12.00% |
| Interest                    | 103    | 148    | 102    | 101    | 99     |
| Other Income                | 37     | -1     | -2     | -3     | -9     |
| PBT                         | 630    | 732    | 935    | 1,106  | 1,291  |
| Exceptional Items           | -      | -8.81  | -      | -      | -      |
| PBT after exceptional Items | 630    | 741    | 935    | 1,106  | 1,290  |
| Tax                         | 115    | 146    | 168    | 199    | 232    |
| Rate (%)                    | 18.3%  | 19.7%  | 18.0%  | 18.0%  | 18.0%  |
| PAT                         | 515    | 594    | 766    | 907    | 1,058  |
| Margin                      | 8%     | 7%     | 9%     | 9%     | 9%     |
| Consolidated PAT            | 515    | 595    | 766    | 907    | 1,058  |
| Change (%)                  | 0.2%   | 15.5%  | 28.9%  | 18.3%  | 16.6%  |

| Balance Sheet (INR Cr)       |       |       |       |       |       |
|------------------------------|-------|-------|-------|-------|-------|
| Year End-March               | FY24  | FY25  | FY26E | FY27E | FY28E |
| <b>Sources of Funds</b>      |       |       |       |       |       |
| Share Capital                | 697   | 697   | 697   | 697   | 697   |
| Reserves & Surplus           | 3,003 | 3,401 | 3,923 | 4,586 | 5,401 |
| Non controlling interest     | 0     | 0     | 0     | 0     | 0     |
| Total Equity                 | 3,701 | 4,098 | 4,621 | 5,284 | 6,098 |
| <b>Loan Funds</b>            |       |       |       |       |       |
| Deferred Tax Liability (Net) | 147   | 165   | 165   | 165   | 165   |
| Total Liability              | 6,076 | 7,922 | 7,711 | 8,386 | 9,212 |
| <b>Application of Funds</b>  |       |       |       |       |       |
| 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 | 2,608 | 3,244 | 4,076 |
| Investments                  | 30    | 62    | 62    | 62    | 62    |
| Sundry debtors               | 1,161 | 1,686 | 1,161 | 1,161 | 1,161 |
| Cash and bank                | 188   | 167   | 1,179 | 1,815 | 2,647 |
| Other Current Assets         | 149   | 289   | 289   | 289   | 289   |
| Total Current assets         | 1,535 | 2,224 | 2,711 | 3,347 | 4,179 |
| 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 | 7,711 | 8,386 | 9,212 |

| Cash Flow Statement (INR Cr)      |       |       |       |       |       |
|-----------------------------------|-------|-------|-------|-------|-------|
| Year End-March                    | FY24  | FY25  | FY26E | FY27E | FY28E |
| PBT                               | 630   | 741   | 935   | 1,106 | 1,291 |
| Cash From Operating Activities    | 716   | 823   | 1,864 | 1,581 | 1,810 |
| Tax                               | 72    | (122) | 168   | 199   | 232   |
| Net Cash From Operations          | 644   | 701   | 1,696 | 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   | 1022  | 634   | 830   |
| Cash at the beginning of the year | 152   | 175   | 155   | 1,179 | 1,815 |
| Cash at the end of the year       | 174   | 155   | 1,179 | 1,815 | 2,647 |

| Key Ratios                |       |       |       |       |       |
|---------------------------|-------|-------|-------|-------|-------|
| Year End-March            | FY24  | FY25  | FY26E | FY27E | FY28E |
| <b>Per share (INR)</b>    |       |       |       |       |       |
| EPS                       | 7.3   | 8.6   | 11.0  | 13.0  | 15.2  |
| BVPS                      | 53    | 59    | 66    | 76    | 87    |
| <b>Valuation (x)</b>      |       |       |       |       |       |
| P/E                       | 48.1  | 40.9  | 32.1  | 27.1  | 23.3  |
| P/BV                      | 6.6   | 6.0   | 5.3   | 4.7   | 4.0   |
| EV/EBITDA                 | 26.4  | 21.5  | 18.1  | 14.9  | 12.5  |
| <b>Return ratio (%)</b>   |       |       |       |       |       |
| EBITDA Margin             | 15.1% | 15.1% | 15.0% | 15.6% | 15.6% |
| EBIT Margin               | 11.0% | 11.0% | 11.6% | 11.9% | 12.0% |
| PAT Margin                | 8.1%  | 7.5%  | 8.6%  | 8.9%  | 9.1%  |
| ROE                       | 13.9% | 14.5% | 16.6% | 17.2% | 17.4% |
| ROCE                      | 11.5% | 11.1% | 13.5% | 14.4% | 15.2% |
| <b>Leverage Ratio (%)</b> |       |       |       |       |       |
| Total D/E                 | 0.2   | 0.4   | 0.2   | 0.2   | 0.1   |
| <b>Turnover Ratios</b>    |       |       |       |       |       |
| Asset Turnover (x)        | 4.1   | 3.6   | 3.3   | 3.0   | 2.8   |
| Receivable Days           | 63    | 53    | 47    | 42    | 36    |
| Payable days              | 15    | 16    | 16    | 14    | 12    |

Source: Arian 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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