

We attended RPSG Group’s ‘Investor Day’ to discern Firstsource SOLUTIONS (FSOL)’s growth strategy, demand setting, and business outlook. **KTAs: 1) Mgmt outlined its growth strategy that encompasses the ‘One Firstsource’ framework, which focuses on 7 strategic initiatives, including simplification of organizational structure and cross-selling/up-selling, particularly in the 50 potential growth accounts it has identified. The framework also grades (capability-wise) FSOL’s services portfolio into 5 areas—collections, customer experience, consulting, trust & safety, data & analytics. Mgmt believes that steadfast execution of the framework will drive a possible mid-teen revenue growth, with 14% EBITM aspiration for the next 3 years. 2) Mgmt remains confident about achieving revenue growth of 11.5-13.5% in FY25 and EBITM of 11-12%. It targets reaching a USD1bn revenue run-rate by Q4FY26, and expanding margin by 50-75bps annually, from FY25 on. We roll forward our TP to Sep-25E and retain ADD, with TP raised to Rs330/sh at 25x its Sep-26E EPS.**

Firstsource Solutions: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,223	63,362	74,476	84,881	96,093
EBITDA	8,265	9,562	11,585	13,771	16,188
Adj. PAT	5,137	5,192	6,163	7,784	9,777
Adj. EPS (Rs)	7.4	7.4	8.8	11.2	14.0
EBITDA margin (%)	13.7	15.1	15.6	16.2	16.8
EBITDA growth (%)	(13.9)	15.7	21.1	18.9	17.6
Adj. EPS growth (%)	(4.4)	1.1	18.7	26.3	25.6
RoE (%)	16.1	14.7	15.9	18.3	20.6
RoIC (%)	12.1	13.9	15.2	17.1	20.4
P/E (x)	43.9	43.4	36.6	29.0	23.1
EV/EBITDA (x)	27.8	24.0	20.1	16.7	13.9
P/B (x)	6.7	6.1	5.6	5.0	4.5
FCFF yield (%)	3.3	2.5	3.0	4.0	4.9

Source: Company, Emkay Research

Seven strategic initiatives to drive top-quartile growth with margin uptick

CEO Idnani shared his growth strategy encompassing the ‘One Firstsource’ framework, with focus on seven strategic initiatives: i) simplify organizational structure – establish clear accountability and ensure faster decision-making. Per the revised organization structure, North America is aligned along 3 verticals (BFS, Healthcare, CMT), while Europe will remain a geographical business unit. ‘One Firstsource’ also aligns the services portfolio into five capability areas—collections, customer experience, and emerging & fast-growing services like consulting, trust & safety, and data & analytics; ii) increase cross-selling and upselling initiatives to gain wallet share – has identified 50 accounts which have significant growth opportunities; the company will make necessary investments to scale these; iii) improve profitability – the company has identified 24 margin initiatives, which include offshore shift, employee pyramid, span of control, optimizing delivery infrastructure, etc, and which would drive a 300bps margin improvement over the next 3 years; iv) elevate employee experience; v) expand capabilities into adjacent areas; vi) amplify the Firstsource brand by strengthening relationships with analysts/advisors and across the partnership ecosystem; and vii) bring in technology across all company operations. It is also strengthening its offerings using partnerships with startups, which have IP but lack distribution; FSOL has a client base and distribution network, but lacks IP.

Cross sell/upsell to gain wallet share for driving predictable, profitable growth

FSOL has >200 clients, incl 19 F500 and 3 FTSE-100 companies. The company identified 50 accounts which entail significant growth opportunities, and plans to assign a client partner with a dedicated team with clear ownership to identify white spaces, develop a structured account plan, take proactive proposals to clients, and work with them to develop a pipeline of large transformational opportunities for driving its cross-selling/up-selling. It is investing in scaling its consulting practice to act as a ‘tip of the spear’ for the increasing size of the sales funnel. FSOL has expanded its footprint, into mortgage, with expansion in servicing, home equity, regional banks, etc, to lessen the volatility.

GenAI more of an opportunity than threat

FSOL expects wider adoption of GenAI. It is still early days of GenAI adoption for most enterprises. After the initial excitement, players are now viewing GenAI more holistically. Mgmt highlighted that it is implementing GenAI in all its systems which is helping the company achieve higher propensity to win deals. It expects AI to aid both, revenue and margin accretion. Mgmt highlighted that demos of its proprietary framework *FirstSense AI* have influenced >5 customer wins. With reLAI, which supports multi-language proprietary LLMs, FSOL has completed >55 POCs, with over 8 co-pilots under production.

Target Price – 12M	Sep-25
Change in TP (%)	10.0
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	2.1
CMP (23-Aug-24) (Rs)	323.4

Stock Data	Ticker
52-week High (Rs)	344
52-week Low (Rs)	148
Shares outstanding (mn)	697.0
Market-cap (Rs bn)	225
Market-cap (USD mn)	2,686
Net-debt, FY25E (Rs mn)	7,685
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	2,012.8
ADTV-3M (USD mn)	24.0
Free float (%)	44.0
Nifty-50	24,823
INR/USD	83.9
Shareholding, Jun-24	
Promoters (%)	53.7
FPIs/MFs (%)	9.4/19.5

Price Performance				
(%)	1M	3M	12M	
Absolute	34.5	64.3	106.1	
Rel. to Nifty	32.6	52.0	61.4	



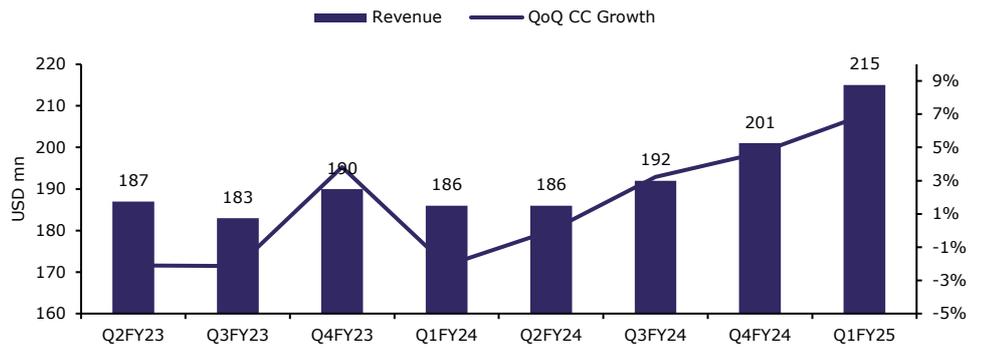
Dipesh Mehta
dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Kevin Shah
kevin.shah@emkayglobal.com
+91 22 6612 1340

Pulkit Chawla
pulkit.chawla@emkayglobal.com
+91 22 6624 2458

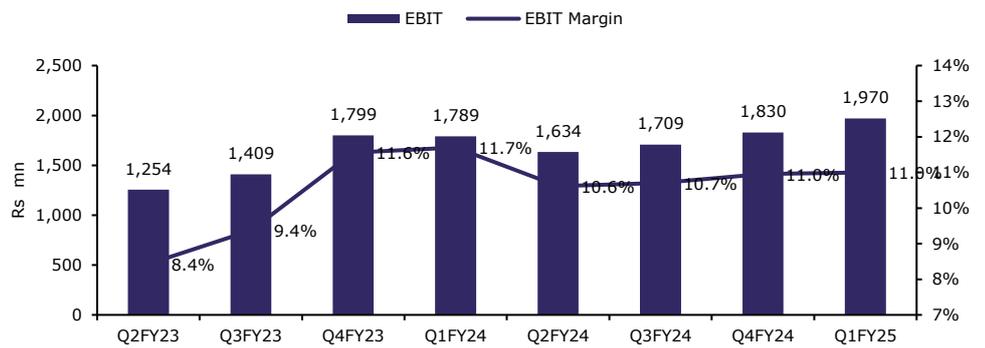
Story in Charts

Exhibit 1: Quarterly revenue on an upward trajectory



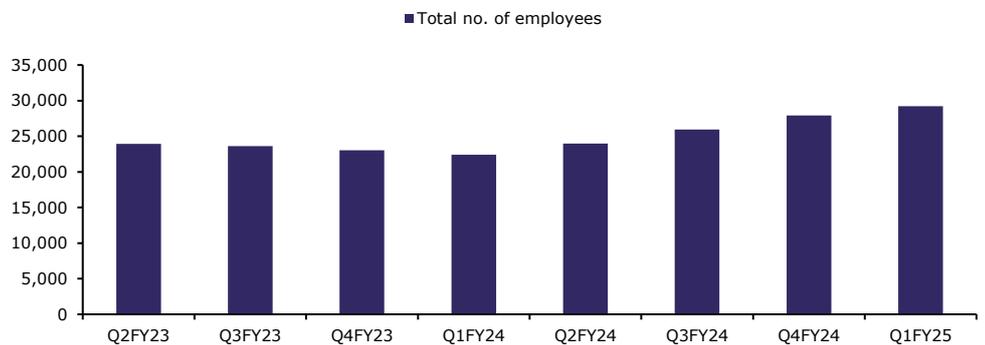
Source: Company, Emkay Research

Exhibit 2: EBITM remains steady in recent quarters; the management targets gradual improvement



Source: Company, Emkay Research

Exhibit 3: Healthy headcount addition aiding revenue growth



Source: Company, Emkay Research

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Exhibit 4: Building capabilities to address opportunities in AI



Source: Company, Emkay Research

Exhibit 5: FSOL works with marquee clients

- 5 of Top 15
Mortgage Servicers in the US

- 5 of Top 15
Mortgage Lenders in the US

- 6 of Top 10
Credit card issuers in the US

- 3 of Top 6
Retail Banks in the UK

- 1,000+
Hospitals in the US

- 11 of Top 15
Health insurance/managed care providers in the US

- 1 of Top 2
Broadcasting and media companies in the UK

- 2 of Top 5
Telecom and broadcasting companies in the US

- 3 of Top 5
Consumer-tech companies in the US

- 2 of Top 4
Utility companies in the UK

Source: Company, Emkay Research

Exhibit 6: FSOL's well recognized solutions offerings

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Market Leader
Star Performer
Healthcare Payer Operations
Peak Matrix Assessment | 2023

- 

Major Contender
RCM Operations
Peak Matrix Assessment | 2023

- 

Major Contender
Star Performer
Banking Operations
Peak Matrix Assessment | 2023

- 

Leader Quadrant
Customer Experience Services
Provider Lens | Europe | 2023

- 

Horizon 2
Customer Experience Services
HFS Horizons | 2024

- 

Horizon 1
HCP Service Providers
HFS Horizons | 2024

- 

Leader
Cost Optimization & Revenue Generation Capability
NEAT Vendor Analysis | 2024

Source: Company, Emkay Research

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Firstsource Solutions: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,223	63,362	74,476	84,881	96,093
Revenue growth (%)	1.7	5.2	17.5	14.0	13.2
EBITDA	8,265	9,562	11,585	13,771	16,188
EBITDA growth (%)	(13.9)	15.7	21.1	18.9	17.6
Depreciation & Amortization	2,632	2,602	3,011	3,387	3,698
EBIT	5,633	6,960	8,574	10,384	12,490
EBIT growth (%)	(20.7)	23.6	23.2	21.1	20.3
Other operating income	0	0	0	0	0
Other income	1,309	415	96	125	224
Financial expense	790	1,034	1,131	1,017	790
PBT	6,152	6,342	7,539	9,492	11,923
Extraordinary items	0	0	0	0	0
Taxes	1,015	1,150	1,376	1,709	2,146
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,137	5,192	6,163	7,784	9,777
PAT growth (%)	(4.4)	1.1	18.7	26.3	25.6
Adjusted PAT	5,137	5,192	6,163	7,784	9,777
Diluted EPS (Rs)	7.4	7.4	8.8	11.2	14.0
Diluted EPS growth (%)	(4.4)	1.1	18.7	26.3	25.6
DPS (Rs)	3.5	3.5	4.0	5.0	6.0
Dividend payout (%)	47.5	47.0	45.2	44.8	42.8
EBITDA margin (%)	13.7	15.1	15.6	16.2	16.8
EBIT margin (%)	9.4	11.0	11.5	12.2	13.0
Effective tax rate (%)	16.5	18.1	18.3	18.0	18.0
NOPLAT (pre-IndAS)	4,704	5,699	7,009	8,515	10,241
Shares outstanding (mn)	697.0	697.0	697.0	697.0	697.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,152	6,342	7,539	9,492	11,923
Others (non-cash items)	1,689	3,273	2,915	3,262	3,474
Taxes paid	(656)	(718)	(1,376)	(1,709)	(2,146)
Change in NWC	765	(2,404)	(1,096)	(1,111)	(1,413)
Operating cash flow	7,950	6,448	7,981	9,934	11,838
Capital expenditure	(514)	(850)	(1,284)	(890)	(900)
Acquisition of business	0	0	(3,209)	0	0
Interest & dividend income	10	10	96	125	224
Investing cash flow	134	(547)	(4,597)	(1,265)	(3,476)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,351)	(291)	1,228	(2,979)	(1,982)
Payment of lease liabilities	(1,495)	(1,993)	(2,500)	(2,000)	(2,000)
Interest paid	(787)	(1,011)	0	0	0
Dividend paid (incl tax)	(2,384)	(2,406)	(2,788)	(3,485)	(4,182)
Others	(140)	59	0	0	0
Financing cash flow	(7,434)	(5,642)	(4,060)	(8,464)	(8,164)
Net chg in Cash	650	259	(676)	205	198
OCF	7,950	6,448	7,981	9,934	11,838
Adj. OCF (w/o NWC chg.)	7,185	8,852	9,077	11,046	13,251
FCFF	7,436	5,597	6,697	9,044	10,938
FCFE	6,657	4,574	5,662	8,153	10,371
OCF/EBITDA (%)	96.2	67.4	68.9	72.1	73.1
FCFE/PAT (%)	129.6	88.1	91.9	104.7	106.1
FCFF/NOPLAT (%)	158.1	98.2	95.6	106.2	106.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	6,970	6,970	6,970	6,970	6,970
Reserves & Surplus	26,699	30,034	33,409	37,708	43,303
Net worth	33,668	37,004	40,379	44,678	50,272
Minority interests	4	4	4	4	4
Deferred tax liability (net)	1,196	1,470	1,470	1,470	1,470
Total debt	6,665	6,715	9,509	6,530	4,548
Total liabilities & equity	41,533	45,193	51,362	52,682	56,295
Net tangible fixed assets	1,739	1,641	1,623	1,548	1,424
Net intangible assets	1,015	649	1,054	617	170
Net ROU assets	4,958	6,355	7,147	7,162	6,935
Capital WIP	34	171	170	170	170
Goodwill	29,450	29,885	32,485	32,485	32,485
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	2,267	2,300	1,824	2,529	5,527
Current assets (ex-cash)	17,180	19,624	21,298	23,122	25,303
Current Liab. & Prov.	15,111	15,432	14,239	14,952	15,720
NWC (ex-cash)	2,069	4,192	7,059	8,170	9,583
Total assets	41,533	45,193	51,362	52,682	56,295
Net debt	4,398	4,415	7,685	4,001	(979)
Capital employed	41,533	45,193	51,362	52,682	56,295
Invested capital	39,232	42,722	49,368	49,982	50,597
BVPS (Rs)	48.3	53.1	57.9	64.1	72.1
Net Debt/Equity (x)	0.1	0.1	0.2	0.1	0.0
Net Debt/EBITDA (x)	0.5	0.5	0.7	0.3	(0.1)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	16.8	17.0	18.0	20.2	23.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	43.9	43.4	36.6	29.0	23.1
P/CE(x)	29.0	28.9	24.6	20.2	16.7
P/B (x)	6.7	6.1	5.6	5.0	4.5
EV/Sales (x)	3.8	3.6	3.1	2.7	2.3
EV/EBITDA (x)	27.8	24.0	20.1	16.7	13.9
EV/EBIT(x)	40.8	33.0	27.2	22.1	18.0
EV/IC (x)	5.9	5.4	4.7	4.6	4.4
FCFF yield (%)	3.3	2.5	3.0	4.0	4.9
FCFE yield (%)	3.0	2.0	2.5	3.6	4.6
Dividend yield (%)	1.1	1.1	1.2	1.5	1.9
DuPont-RoE split					
Net profit margin (%)	8.5	8.2	8.3	9.2	10.2
Total asset turnover (x)	1.5	1.5	1.5	1.6	1.8
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.1
RoE (%)	16.1	14.7	15.9	18.3	20.6
DuPont-RoIC					
NOPLAT margin (%)	7.8	9.0	9.4	10.0	10.7
IC turnover (x)	1.5	1.5	1.6	1.7	1.9
RoIC (%)	12.1	13.9	15.2	17.1	20.4
Operating metrics					
Core NWC days	12.5	24.1	34.6	35.1	36.4
Total NWC days	12.5	24.1	34.6	35.1	36.4
Fixed asset turnover	1.3	1.3	1.4	1.4	1.6
Opex-to-revenue (%)	86.3	84.9	84.4	83.8	83.2

Source: Company, Emkay Research

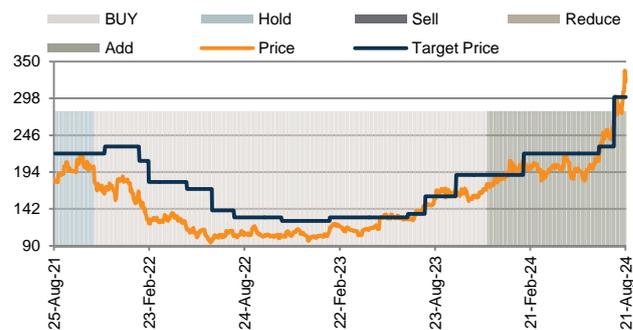
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Jul-24	271	300	Add	Dipeshkumar Mehta
01-Jul-24	214	230	Add	Dipeshkumar Mehta
09-Jun-24	197	220	Add	Dipeshkumar Mehta
03-Jun-24	192	220	Add	Dipeshkumar Mehta
27-May-24	194	220	Add	Dipeshkumar Mehta
03-May-24	208	220	Add	Dipeshkumar Mehta
31-Mar-24	198	220	Add	Dipeshkumar Mehta
01-Mar-24	205	220	Add	Dipeshkumar Mehta
08-Feb-24	217	220	Add	Dipeshkumar Mehta
31-Dec-23	185	190	Add	Dipeshkumar Mehta
30-Nov-23	178	190	Add	Dipeshkumar Mehta
16-Nov-23	166	190	Buy	Dipeshkumar Mehta
08-Nov-23	160	190	Buy	Dipeshkumar Mehta
02-Oct-23	168	190	Buy	Dipeshkumar Mehta
04-Aug-23	149	160	Buy	Dipeshkumar Mehta
02-Jul-23	127	135	Buy	Dipeshkumar Mehta
05-May-23	113	130	Buy	Dipeshkumar Mehta
01-Apr-23	106	130	Buy	Dipeshkumar Mehta
03-Feb-23	116	130	Buy	Dipeshkumar Mehta
02-Jan-23	103	125	Buy	Dipeshkumar Mehta
03-Nov-22	104	125	Buy	Dipeshkumar Mehta
04-Oct-22	105	130	Buy	Dipeshkumar Mehta
04-Aug-22	105	130	Buy	Dipeshkumar Mehta
23-Jun-22	100	140	Buy	Dipeshkumar Mehta
06-May-22	112	170	Buy	Dipeshkumar Mehta
01-Apr-22	128	180	Buy	Dipeshkumar Mehta
22-Feb-22	122	180	Buy	Dipeshkumar Mehta
04-Feb-22	153	210	Buy	Dipeshkumar Mehta
01-Jan-22	183	230	Buy	Dipeshkumar Mehta
30-Dec-21	183	230	Buy	Dipeshkumar Mehta
30-Nov-21	170	230	Buy	Dipeshkumar Mehta
23-Nov-21	170	220	Buy	Dipeshkumar Mehta
10-Nov-21	180	220	Buy	Dipeshkumar Mehta
02-Oct-21	195	220	Hold	Dipeshkumar Mehta
27-Aug-21	182	220	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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