

We hosted FSOL's CEO Ritesh Idnani and its senior management team, for NDR in Mumbai. Key takeaways: 1) Mr Idnani gave details about his growth strategy encompassing the 'One Firstsource' framework that focuses on 7 strategic initiatives, including simplification of organizational structure – North America divided into 3 industry units of BFS, Healthcare, and CMT & others; Europe to remain a geographical business unit. The framework also aligns FSOL's services portfolio into 5 capability areas – collections, customer experience, consulting, trust & safety, and data & analytics. Mgmt believes steadfast execution per the framework will drive top-quartile revenue growth, with margin improvement. CEO plans sharing specific growth aspirations by end-FY24. 2) Mgmt remains confident about achieving 0-2% growth in FY24 and operating at 11-11.5% EBITM. 3) Overall BPO market size is ~USD300bn, of which Customer Experience (CX) comprises 25-30%. FSOL derives ~53% of revenue from CX. Only ~27% of the CX market is outsourced, thus offering a huge opportunity. We maintain BUY, with TP of Rs190, at 18x its Sep-25E EPS.

Firstsource Solutions: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	59,212	60,223	62,931	71,937	81,119
EBITDA	9,599	8,265	9,714	11,548	13,132
Adj. PAT	5,374	5,137	5,217	6,605	7,819
Adj. EPS (Rs)	7.7	7.4	7.5	9.5	11.2
EBITDA margin (%)	16.2	13.7	15.4	16.1	16.2
EBITDA growth (%)	19.4	(13.9)	17.5	18.9	13.7
Adj. EPS growth (%)	48.4	(4.4)	1.5	26.6	18.4
RoE (%)	18.4	16.1	14.9	17.3	18.6
RoIC (%)	16.8	12.1	14.1	16.5	18.9
P/E (x)	21.2	22.2	21.8	17.3	14.6
EV/EBITDA (x)	12.7	14.3	12.3	10.0	8.5
P/B (x)	3.8	3.4	3.1	2.9	2.6
FCFF yield (%)	5.5	6.5	4.7	6.7	7.9

Source: Company, Emkay Research

New framework execution to drive top-quartile growth with margin uptick

Mr 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. The refined organization will have North America aligned along 3 industrial verticals (BFS, healthcare and CMT), while Europe will remain a geographical business unit. 'One Firstsource' also aligns the services portfolio into five capability areas – mature services like collections and 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; iii) expand capabilities into adjacent areas; iv) amplify the Firstsource brand by strengthening relationships with analysts/advisors and across the partnership ecosystem. FSOL has hired a leader to manage partnerships. 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; v) bring in technology in all its operations; vi) elevate employee experience; vii) improve profitability – margin levers include offshore shift, employee pyramid, span of control, optimizing delivery infrastructure. The uncertain macro environment is impelling enterprises to shift to a playbook that is a combination of growth and efficiency, along with accelerated developments in GenAI, likely to create market opportunities that FSOL plans to tap into.

Cross sell/upsell to gain wallet share and more predictable growth

FSOL has over 150 clients, including 18 F500 and 3 FTSE 100 companies. Mgmt sees good potential in cross-sell/up-sell, on which it can effectively capitalize; it plans setting up dedicated teams for potential large accounts. Each team to have a client partner 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 cross-sell/up-sell. It is investing in scaling its consulting practice to act as a 'tip of the spear' for increasing size of the sales funnel. FSOL focuses on building adjacencies across current offerings to maximize wallet share and strengthen footprint in Eastern Europe, South Africa, and Latin America for nearshore/offshore delivery capabilities.

FirstSense AI – Proprietary framework to accelerate AI deployment

FSOL launched FirstSense AI, a proprietary framework to accelerate clients' AI deployment, while developing a sandbox ecosystem for clients to experiment and evaluate AI frameworks. It has a library of over 100 use cases across industry verticals, and has completed over 25 POCs, of which many have advanced to the production pilot stage; e.g., FSOL uses email automation after call summarization, quality automation, and copilots for healthcare claims processing & mortgage underwriting.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	16.2
CMP (15-Nov-23) (Rs)	163.5

Stock Data	Ticker
52-week High (Rs)	176
52-week Low (Rs)	96
Shares outstanding (mn)	697.0
Market-cap (Rs bn)	114
Market-cap (USD mn)	1,371
Net-debt, FY24E (Rs mn)	5,316
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	438.6
ADTV-3M (USD mn)	5.3
Free float (%)	44.0
Nifty-50	19,675
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	53.7
FPIs/MFs (%)	10.2/16.2

Price Performance

(%)	1M	3M	12M
Absolute	(2.4)	11.3	48.0
Rel. to Nifty	(2.0)	9.9	37.8

1-Year share price trend (Rs)**Dipesh Mehta**

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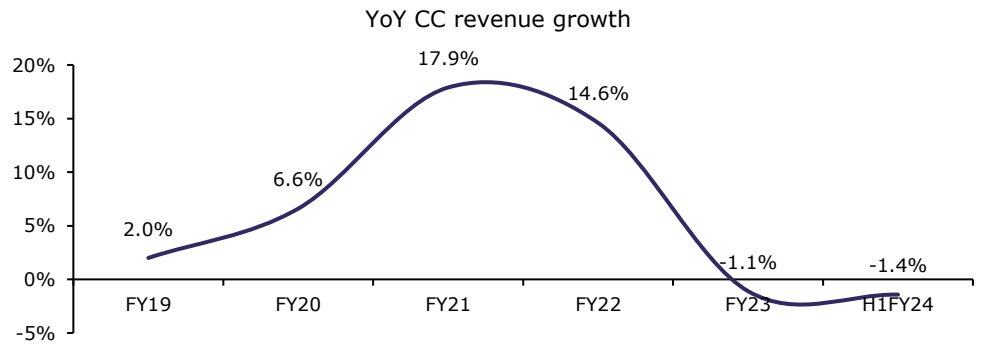
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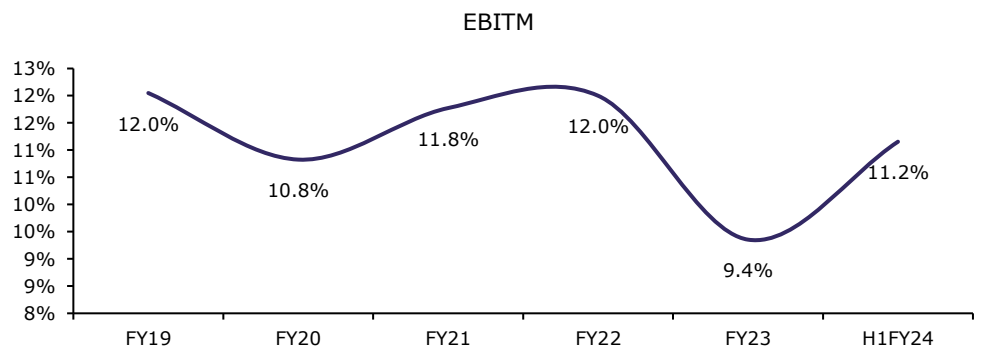
Story in Charts

Exhibit 1: H1FY24 revenue impacted by the mortgage segment and offshore shift



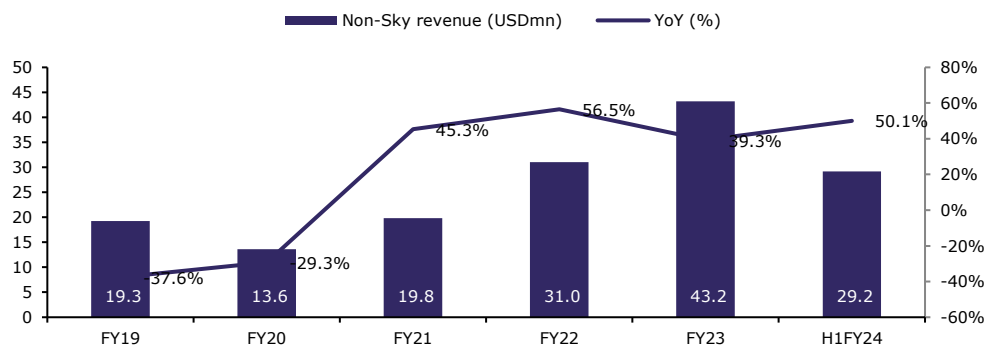
Source: Company, Emkay Research

Exhibit 2: EBITM remains in the guided range of 11-11.5% for H1FY24; the management sees further scope of improvement



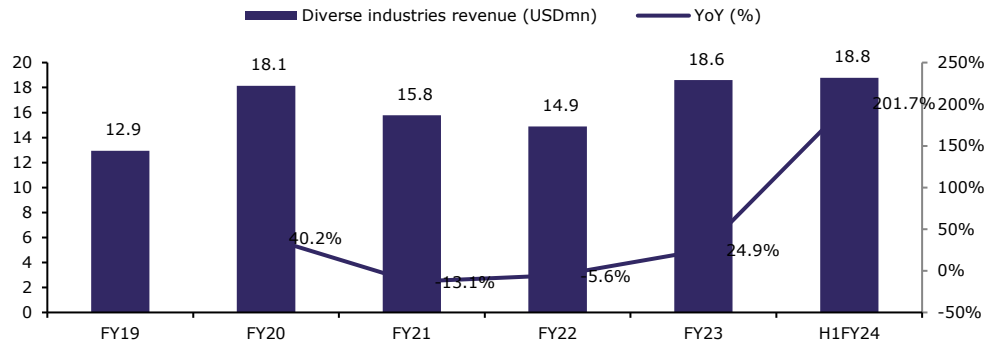
Source: Company, Emkay Research

Exhibit 3: Edtech and media driving growth in Non-Sky in CMT



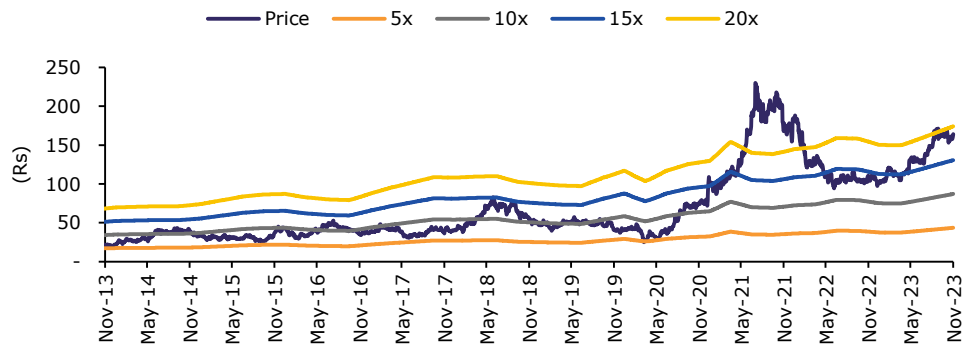
Source: Company, Emkay Research

Exhibit 4: Uptick in diverse industries is on the back of traction in utilities



Source: Company, Emkay Research

Exhibit 5: FSOL – One-year forward P/E



Source: Company, Emkay Research

Firstsource Solutions: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	59,212	60,223	62,931	71,937	81,119
Revenue growth (%)	16.6	1.7	4.5	14.3	12.8
EBITDA	9,599	8,265	9,714	11,548	13,132
EBITDA growth (%)	19.4	(13.9)	17.5	18.9	13.7
Depreciation & Amortization	2,494	2,632	2,625	2,887	3,182
EBIT	7,105	5,633	7,089	8,662	9,950
EBIT growth (%)	18.8	(20.7)	25.8	22.2	14.9
Other operating income	0	0	0	0	0
Other income	6	1,309	224	110	156
Financial expense	639	790	935	716	570
PBT	6,471	6,152	6,378	8,055	9,536
Extraordinary items	0	0	0	0	0
Taxes	1,106	1,015	1,162	1,450	1,716
Minority interest	8	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,374	5,137	5,217	6,605	7,819
PAT growth (%)	48.6	(4.4)	1.5	26.6	18.4
Adjusted PAT	5,374	5,137	5,217	6,605	7,819
Diluted EPS (Rs)	7.7	7.4	7.5	9.5	11.2
Diluted EPS growth (%)	48.4	(4.4)	1.5	26.6	18.4
DPS (Rs)	3.5	3.5	3.5	4.5	5.0
Dividend payout (%)	45.4	47.5	46.8	47.5	44.6
EBITDA margin (%)	16.2	13.7	15.4	16.1	16.2
EBIT margin (%)	12.0	9.4	11.3	12.0	12.3
Effective tax rate (%)	17.1	16.5	18.2	18.0	18.0
NOPLAT (pre-IndAS)	5,891	4,704	5,798	7,102	8,159
Shares outstanding (mn)	697.0	697.0	697.0	697.0	697.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,471	6,152	6,378	8,055	9,536
Others (non-cash items)	3,394	1,689	2,401	2,777	3,026
Taxes paid	(945)	(656)	(1,162)	(1,450)	(1,716)
Change in NWC	(1,884)	765	(1,511)	(588)	(524)
Operating cash flow	7,036	7,950	6,106	8,794	10,321
Capital expenditure	(729)	(514)	(776)	(1,140)	(1,290)
Acquisition of business	(5,067)	0	(909)	0	0
Interest & dividend income	5	10	224	110	156
Investing cash flow	(5,933)	134	(2,865)	(1,030)	(3,634)
Equity raised/(repaid)	37	0	0	0	0
Debt raised/(repaid)	3,905	(2,351)	508	(3,385)	(1,812)
Payment of lease liabilities	(1,170)	(1,495)	(1,400)	(1,400)	(1,400)
Interest paid	(580)	(787)	0	0	0
Dividend paid (incl tax)	(2,384)	(2,384)	(2,439)	(3,136)	(3,485)
Others	(500)	(140)	0	0	0
Financing cash flow	(1,580)	(7,434)	(3,332)	(7,921)	(6,697)
Net chg in Cash	(477)	650	(91)	(157)	(10)
OCF	7,036	7,950	6,106	8,794	10,321
Adj. OCF (w/o NWC chg.)	8,920	7,185	7,618	9,382	10,845
FCFF	6,307	7,436	5,331	7,654	9,031
FCFE	5,672	6,657	4,620	7,048	8,617
OCF/EBITDA (%)	73.3	96.2	62.9	76.2	78.6
FCFE/PAT (%)	105.5	129.6	88.6	106.7	110.2
FCFF/NOPLAT (%)	107.1	158.1	91.9	107.8	110.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	6,970	6,970	6,970	6,970	6,970
Reserves & Surplus	23,360	26,699	29,476	32,945	37,279
Net worth	30,329	33,668	36,446	39,915	44,249
Minority interests	4	4	3	3	3
Deferred tax liability (net)	959	1,196	1,196	1,196	1,196
Total debt	9,683	6,665	8,897	5,512	3,700
Total liabilities & equity	40,975	41,533	46,542	46,626	49,148
Net tangible fixed assets	2,285	1,739	1,467	1,489	1,468
Net intangible assets	1,186	1,015	792	547	375
Net ROU assets	6,758	4,958	5,008	4,884	4,586
Capital WIP	29	34	30	30	30
Goodwill	27,208	29,450	29,450	29,450	29,450
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	2,198	2,267	3,580	3,424	5,914
Current assets (ex-cash)	17,423	17,180	19,018	20,752	22,309
Current Liab. & Prov.	16,112	15,111	12,804	13,950	14,983
NWC (ex-cash)	1,311	2,069	6,214	6,802	7,326
Total assets	40,975	41,533	46,542	46,626	49,148
Net debt	7,485	4,398	5,316	2,088	(2,214)
Capital employed	40,975	41,533	46,542	46,626	49,148
Invested capital	38,747	39,232	42,931	43,172	43,204
BVPS (Rs)	43.5	48.3	52.3	57.3	63.5
Net Debt/Equity (x)	0.2	0.1	0.1	0.1	(0.1)
Net Debt/EBITDA (x)	0.8	0.5	0.5	0.2	(0.2)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	19.0	16.8	16.6	18.8	21.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	21.2	22.2	21.8	17.3	14.6
P/CE(x)	14.5	14.7	14.5	12.0	10.4
P/B (x)	3.8	3.4	3.1	2.9	2.6
EV/Sales (x)	2.1	2.0	1.9	1.6	1.4
EV/EBITDA (x)	12.7	14.3	12.3	10.0	8.5
EV/EBIT(x)	17.1	21.0	16.8	13.4	11.2
EV/IC (x)	3.1	3.0	2.8	2.7	2.6
FCFF yield (%)	5.5	6.5	4.7	6.7	7.9
FCFE yield (%)	5.0	5.8	4.1	6.2	7.6
Dividend yield (%)	2.1	2.1	2.1	2.8	3.1
DuPont-RoE split					
Net profit margin (%)	9.1	8.5	8.3	9.2	9.6
Total asset turnover (x)	1.6	1.5	1.4	1.5	1.7
Assets/Equity (x)	1.3	1.3	1.3	1.2	1.1
RoE (%)	18.4	16.1	14.9	17.3	18.6
DuPont-RoIC					
NOPLAT margin (%)	9.9	7.8	9.2	9.9	10.1
IC turnover (x)	1.7	1.5	1.5	1.7	1.9
RoIC (%)	16.8	12.1	14.1	16.5	18.9
Operating metrics					
Core NWC days	8.1	12.5	36.0	34.5	33.0
Total NWC days	8.1	12.5	36.0	34.5	33.0
Fixed asset turnover	1.4	1.3	1.3	1.4	1.5
Opex-to-revenue (%)	83.8	86.3	84.6	83.9	83.8

Source: Company, Emkay Research

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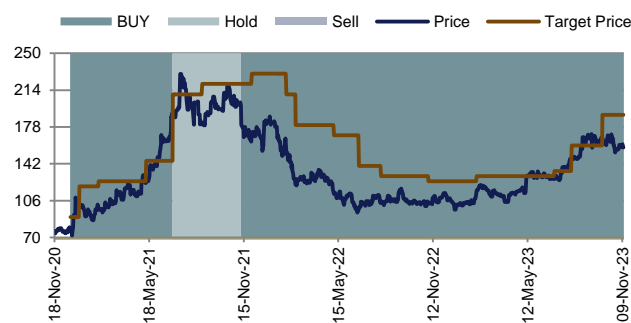
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Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Nov-23	160	190	Buy	Dipeshkumar Mehta
02-Oct-23	168	190	Buy	Dipeshkumar Mehta
04-Aug-23	149	160	Buy	Dipeshkumar Mehta
02-Jul-23	127	135	Buy	Dipeshkumar Mehta
05-May-23	113	130	Buy	Dipeshkumar Mehta
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
30-Jul-21	195	210	Hold	Dipeshkumar Mehta
02-Jul-21	189	210	Hold	Dipeshkumar Mehta
12-May-21	128	145	Buy	Dipeshkumar Mehta
05-Apr-21	119	125	Buy	Dipeshkumar Mehta
18-Mar-21	111	125	Buy	Dipeshkumar Mehta
02-Mar-21	101	125	Buy	Dipeshkumar Mehta
10-Feb-21	98	125	Buy	Dipeshkumar Mehta
04-Jan-21	101	120	Buy	Dipeshkumar Mehta
18-Dec-20	77	90	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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