ADD

Firstsource Solutions

In-line results; robust FY25 guidance

Emkay
Your success is our success

Information Technology ▸ Result Update ▸ **May 3, 2024**

TARGET PRICE (Rs): 220

FSOL's Q4 results were broadly in line with our estimates. Revenue growth of 4.7% QoQ was slightly higher than our estimate of 3.9% QoQ, while EBITM of 11% was in line. Both, revenue growth and logo additions have been broad-based across geographies and verticals. It guided 10-13% CC YoY growth for FY25, considering strong deal intake in FY24 (highest-ever ACV win) and robust pipeline (25% growth in Q4). FY25 guidance factor-in the impact of QBSS acquisition and residual offshore shift in top clients, implying a CQGR of 2-3%. It plans to frontload investments in sales (expanded team size by ~33% in 6M), capabilities (leadership and solutions), and brand positioning. Management aims to deliver USD1bn organic revenue run rate by FY26-end (implied CQGR of ~2.8%), and expand EBITM by 50-75bps each year over the medium term after the investment phase. We cut FY25-26E EPS by 2-4% to factor-in the Q4 performance, slightly weaker margin trajectory, and QBSS acquisition. We maintain ADD with a TP of Rs220/share at 20x Mar-26E EPS.

Firstsource Solutions: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	59,212	60,223	63,363	71,916	81,083
EBITDA	9,599	8,265	9,565	11,294	13,332
Adj. PAT	5,374	5,137	5,148	6,103	7,705
Adj. EPS (Rs)	7.7	7.4	7.4	8.8	11.1
EBITDA margin (%)	16.2	13.7	15.1	15.7	16.4
EBITDA growth (%)	19.4	(13.9)	15.7	18.1	18.0
Adj. EPS growth (%)	48.4	(4.4)	0.2	18.5	26.3
RoE (%)	18.4	16.1	14.6	15.7	17.8
RoIC (%)	16.8	12.1	13.7	14.9	17.4
P/E (x)	27.0	28.2	28.2	23.8	18.8
EV/EBITDA (x)	15.9	18.1	15.8	13.3	10.8
P/B (x)	4.8	4.3	3.9	3.6	3.2
FCFF yield (%)	4.4	5.1	3.9	5.4	6.3

Source: Company, Emkay Research

Results Summary

Revenue grew 4.7% QoQ (4.2% CC) to USD201mn, slightly higher than our estimate of USD199.5mn. Growth was broad based across all verticals — BFS (1.7% QoQ CC), Healthcare (3%), CMT (8%), and Diverse industries (7%). From geographies perspective, both US and UK grew 4% QoQ in CC. EBITM expanded ~30bps QoQ to 11%, in line with our estimates. Margin expansion was aided by normalization of the salary hikes undertaken in Q3. CMT and Healthcare margins contracted by 110bps and 190bps QoQ, respectively, while BFS margin expanded 200bps QoQ. Despite the offshore shift, top clients grew 13.8% QoQ on the back of additional business win. FSOL added 9 new logos in the quarter (6 in BFS, 2 in Healthcare, and 1 in CMT), with a total of 41 logos during FY24. It added 1,993 employees in Q4 (up 7.7% QoQ). **What we liked:** Broad-based growth in Q4, highest ACV win, steady FY25 guidance. **What we did not like:** Net debt remains largely unchanged at the end of FY24 at Rs6.04bn vs Rs6.16bn YoY.

Earnings Call KTAs

i) While the revenues were largely flat in H1, the company has seen growth acceleration in H2FY24. It has accelerated its participation in the cost optimization, revenue generation, and technology & process transformation agendas of clients. ii) Company added 9 new logos in Q4 and Management highlighted that the new logos are coming at deal sizes over 60% higher than last year. iii) BFSI, up 1.7% CC QoQ, was impacted by elevated interest rates, but clients continue to focus on cost optimization to drive efficiency in operations. iv) It also witnessed increased volumes in collection services with card issuers, credit card spending reaching record highs, and delinquencies also on the rise. v) A large transformational deal from one of its longstanding clients (announced in Q3) is well on track for ramp up. vi) Healthcare grew 3% CC QoQ in Q2. It announced 2 large deals in Q3, which have ramped-up well. While there was a minor impact in provider business due to a sudden drop in transactions in Q4, it was more than offset by increased volume on the payer side. vii) FSOL acquired QBSS for a cash consideration of USD39.2mn (EV/Sales: 2.65x). QBSS, headquartered in Chennai, provides RCM services for healthcare service providers and its intermediaries in the USA. The market for RCM solutions is estimated at USD25bn and is growing at double digits per year. viii) Despite the offshore shift in top clients, CMT grew 8% CC QoQ, aided by additional business and strong growth outside top clients. ix) Diverse vertical grew 7% CC QoQ, benefitted by strong demand in Energy & Utilities. x) In the US, the company expects growth to be driven by healthcare, CMT, and BFS, given the strength of FY24 exit pipeline.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	5.8
CMP (03-May-24) (Rs)	208.0

Stock Data	Ticker
52-week High (Rs)	229
52-week Low (Rs)	112
Shares outstanding (mn)	697.0
Market-cap (Rs bn)	145
Market-cap (USD mn)	1,738
Net-debt, FY25E (Rs mn)	4,730
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	532.3
ADTV-3M (USD mn)	6.4
Free float (%)	44.0
Nifty-50	22,476
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	53.7
FPIs/MFs (%)	9.6/19.3

Price Performance

(%)	1M	3M	12M
Absolute	2.9	4.3	76.3
Rel. to Nifty	2.8	1.4	41.9

1-Year share price trend (Rs)

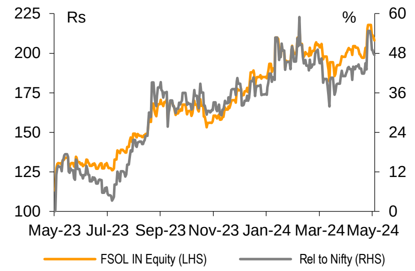

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Exhibit 1: Quarterly snapshot

(Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenues (USD mn)	201.0	192.0	4.7	190.0	5.8
Net sales	16,705	15,966	4.6	15,568	7.3
Total Income	16,705	15,966		15,568	
Operating expenses	14,201	13,595	4.5	13,127	8.2
EBITDA	2,504	2,371	5.6	2,441	2.6
Margins (%)	15.0	14.9	10	15.7	(70)
Depreciation	673	663		642	
EBIT	1,831	1,709	7.2	1,799	1.8
Margins (%)	11.0	10.7	30	11.6	(60)
Interest Paid	312	254		207	
Other income	75	154		127	
Non-recurring items	0	0		0	
Pre-tax profit	1,594	1,608	-0.9	1,719	-7.3
Tax provided	258	321		306	
Profit after tax	1,336	1,287		1,413	
Minority	0	0		0	
Emkay Net profit	1,336	1,287	3.8	1,413	-5.5
EPS (Rs)	1.9	1.8	3.8	2.0	(5.5)

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Revenues (in USD mn)	201	200	199	0.7%	1.1%	Revenue was in line with our estimates
Sales	16,705	16,603	16,505	0.6%	1.2%	
EBIT	1,831	1,839	1,844	-0.4%	-0.7%	
EBIT, margin (%)	*11.0%*	*11.1%*	*11.2%*	*-10 bps*	*-20 bps*	*Margins came in line with our expectations*
PAT	1,336	1,342	1,345	-0.4%	-0.7%	In-line profits due to in-line operating performance

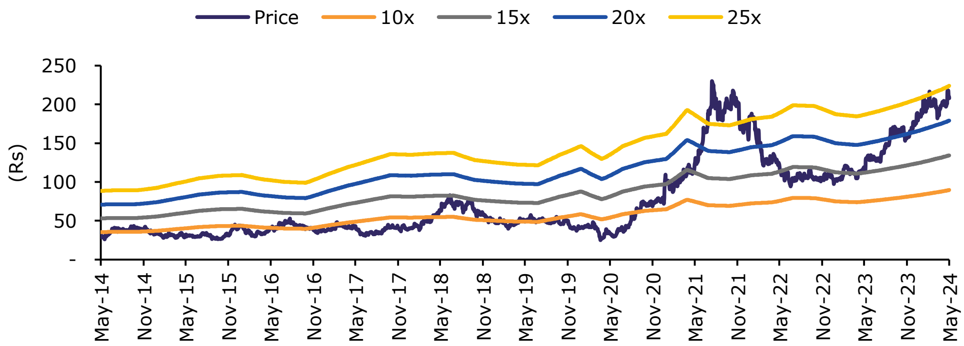
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenues (USD mn)	847	857	1.2%	940	951	1.2%
USD revenues, YoY growth (%)	*11.0%*	*12.0%*		*11.0%*	*11.0%*	
Revenues	71,200	71,916	1.0%	80,261	81,083	1.0%
Revenues, YoY growth (%)	*12.5%*	*13.5%*		*12.7%*	*12.7%*	
EBIT	8,470	8,244	-2.7%	10,049	9,913	-1.4%
EBIT margin (%)	*11.9%*	*11.5%*		*12.5%*	*12.2%*	
PAT	6,358	6,103	-4.0%	7,858	7,705	-1.9%
EPS (Rs/share)	9.1	8.8	-4.0%	11.3	11.1	-1.9%

Source: Company, Emkay Research

Exhibit 4: 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	FY24	FY25E	FY26E
Revenue	**59,212**	**60,223**	**63,363**	**71,916**	**81,083**
Revenue growth (%)	16.6	1.7	5.2	13.5	12.7
EBITDA	**9,599**	**8,265**	**9,565**	**11,294**	**13,332**
EBITDA growth (%)	19.4	(13.9)	15.7	18.1	18.0
Depreciation & Amortization	2,494	2,632	2,602	3,049	3,419
EBIT	**7,105**	**5,633**	**6,963**	**8,244**	**9,913**
EBIT growth (%)	18.8	(20.7)	23.6	18.4	20.2
Other operating income	0	0	0	0	0
Other income	6	1,309	415	119	185
Financial expense	639	790	1,081	921	701
PBT	**6,471**	**6,152**	**6,298**	**7,442**	**9,396**
Extraordinary items	0	0	0	0	0
Taxes	1,106	1,015	1,150	1,340	1,691
Minority interest	8	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**5,374**	**5,137**	**5,148**	**6,103**	**7,705**
PAT growth (%)	48.6	(4.4)	0.2	18.5	26.3
Adjusted PAT	**5,374**	**5,137**	**5,148**	**6,103**	**7,705**
Diluted EPS (Rs)	**7.7**	**7.4**	**7.4**	**8.8**	**11.1**
Diluted EPS growth (%)	48.4	(4.4)	0.2	18.5	26.3
DPS (Rs)	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Dividend payout (%)	**45.4**	**47.5**	**47.4**	**40.0**	**31.7**
EBITDA margin (%)	16.2	13.7	15.1	15.7	16.4
EBIT margin (%)	12.0	9.4	11.0	11.5	12.2
Effective tax rate (%)	17.1	16.5	18.3	18.0	18.0
NOPLAT (pre-IndAS)	**5,891**	**4,704**	**5,692**	**6,760**	**8,128**
Shares outstanding (mn)	697.0	697.0	697.0	697.0	697.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	6,970	6,970	6,970	6,970	6,970
Reserves & Surplus	23,360	26,699	30,034	33,697	38,963
Net worth	**30,329**	**33,668**	**37,004**	**40,667**	**45,933**
Minority interests	4	4	4	4	4
Deferred tax liability (net)	959	1,196	1,470	1,470	1,470
Total debt	**9,683**	**6,665**	**8,123**	**7,680**	**3,700**
Total liabilities & equity	**40,975**	**41,533**	**46,601**	**49,821**	**51,107**
Net tangible fixed assets	2,285	1,739	1,628	1,625	1,577
Net intangible assets	1,186	1,015	650	1,063	788
Net ROU assets	6,758	4,958	6,366	6,448	6,141
Capital WIP	29	34	171	30	30
Goodwill	27,208	29,450	29,885	31,485	31,485
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**2,198**	**2,267**	**2,300**	**2,950**	**4,392**
Current assets (ex-cash)	17,423	17,180	19,829	20,421	21,975
Current Liab. & Prov.	16,112	15,111	14,229	14,200	15,281
NWC (ex-cash)	**1,311**	**2,069**	**5,600**	**6,221**	**6,693**
Total assets	**40,975**	**41,533**	**46,601**	**49,821**	**51,107**
Net debt	7,485	4,398	5,823	4,730	(692)
Capital employed	40,975	41,533	46,601	49,821	51,107
Invested capital	**38,747**	**39,232**	**44,130**	**46,841**	**46,684**
BVPS (Rs)	43.5	48.3	53.1	58.3	65.9
Net Debt/Equity (x)	0.2	0.1	0.2	0.1	0.0
Net Debt/EBITDA (x)	0.8	0.5	0.6	0.4	(0.1)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	**19.0**	**16.8**	**16.7**	**17.3**	**20.0**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	6,471	6,152	6,298	7,442	9,396
Others (non-cash items)	3,394	1,689	3,273	2,930	3,234
Taxes paid	(945)	(656)	(718)	(1,340)	(1,691)
Change in NWC	(1,884)	765	(2,404)	685	(472)
Operating cash flow	**7,036**	**7,950**	**6,448**	**9,718**	**10,467**
Capital expenditure	(729)	(514)	(850)	(1,899)	(1,290)
Acquisition of business	(5,067)	0	0	(1,600)	0
Interest & dividend income	5	10	10	119	185
Investing cash flow	**(5,933)**	**134**	**(547)**	**(4,079)**	**(2,605)**
Equity raised/(repaid)	37	0	0	0	0
Debt raised/(repaid)	3,905	(2,351)	(291)	(1,748)	(3,980)
Payment of lease liabilities	(1,170)	(1,495)	(1,993)	(1,500)	(1,500)
Interest paid	(580)	(787)	(1,011)	0	0
Dividend paid (incl tax)	(2,384)	(2,384)	(2,406)	(2,439)	(2,439)
Others	(500)	(140)	59	0	0
Financing cash flow	**(1,580)**	**(7,434)**	**(5,642)**	**(5,688)**	**(7,919)**
Net chg in Cash	(477)	650	259	(50)	(58)
OCF	7,036	7,950	6,448	9,718	10,467
Adj. OCF (w/o NWC chg.)	8,920	7,185	8,852	9,033	10,939
FCFF	6,307	7,436	5,597	7,819	9,177
FCFE	5,672	6,657	4,527	7,017	8,660
OCF/EBITDA (%)	73.3	96.2	67.4	86.0	78.5
FCFE/PAT (%)	105.5	129.6	87.9	115.0	112.4
FCFF/NOPLAT (%)	**107.1**	**158.1**	**98.3**	**115.7**	**112.9**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	27.0	28.2	28.2	23.8	18.8
P/CE(x)	18.4	18.7	18.7	15.8	13.0
P/B (x)	4.8	4.3	3.9	3.6	3.2
EV/Sales (x)	2.6	2.5	2.4	2.1	1.8
EV/EBITDA (x)	15.9	18.1	15.8	13.3	10.8
EV/EBIT(x)	21.5	26.5	21.7	18.2	14.6
EV/IC (x)	3.9	3.8	3.4	3.2	3.1
FCFF yield (%)	4.4	5.1	3.9	5.4	6.3
FCFE yield (%)	3.9	4.6	3.1	4.8	6.0
Dividend yield (%)	1.7	1.7	1.7	1.7	1.7
DuPont-RoE split					
Net profit margin (%)	9.1	8.5	8.1	8.5	9.5
Total asset turnover (x)	1.6	1.5	1.4	1.5	1.6
Assets/Equity (x)	1.3	1.3	1.2	1.2	1.2
RoE (%)	**18.4**	**16.1**	**14.6**	**15.7**	**17.8**
DuPont-RoIC					
NOPLAT margin (%)	9.9	7.8	9.0	9.4	10.0
IC turnover (x)	1.7	1.5	1.5	1.6	1.7
RoIC (%)	**16.8**	**12.1**	**13.7**	**14.9**	**17.4**
Operating metrics					
Core NWC days	8.1	12.5	32.3	31.6	30.1
Total NWC days	**8.1**	**12.5**	**32.3**	**31.6**	**30.1**
Fixed asset turnover	1.4	1.3	1.3	1.3	1.4
Opex-to-revenue (%)	83.8	86.3	84.9	84.3	83.6

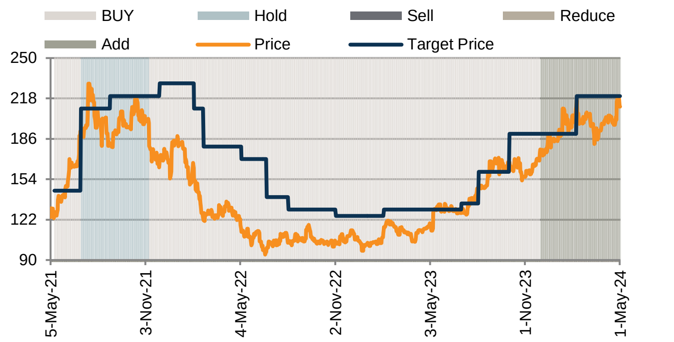
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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
30-Jul-21	195	210	Hold	Dipeshkumar Mehta
02-Jul-21	189	210	Hold	Dipeshkumar Mehta
12-May-21	128	145	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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