

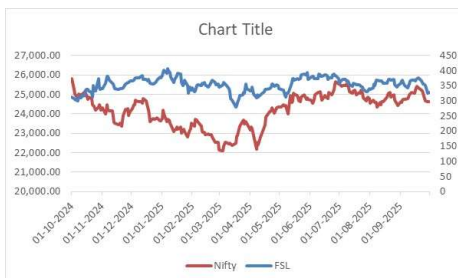
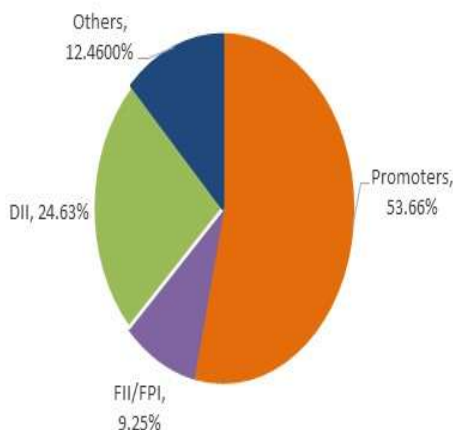
**FirstSource Solutions Ltd.****Analyst Recommendation: BUY**

BSE Code: 532809

NSE: FSL

CMP: Rs 326
3 Year Target - Rs 370

Face Value	10.00
Market Cap (Rs Cr)	22700
Stock PE	37
Dividend Yield	1.10%
Shares O/S (Cr)	70.7
Book Value per Share (Rs)	61.8
Nifty	25,585

1 yr. Price Chart of Stock and Nifty**Shareholding pattern as on 30th Sep 2025****Investor's Rationale****'One Firstsource' for new Firstsource:**

Ritesh's One Firstsource strategy addressed structural, cyclical and technological risks facing FSOL. The revamped GTM included assigning dedicated client partners to identify white spaces and proactively build a transformative deal pipeline. He set up a war room for new must-have logos. Technology in everything was a response to the genAI threat. The Chief Digital & AI officer, one of the CEO's first hires, helped onboard 50 tech partners – from hyperscalers to start-ups. FSOL also built adjacencies – both organically and inorganically. It stepped up analysts/advisors engagement to bring unified capabilities to the market, helping break siloes.

Unlocking potential:

Ritesh's accounts-centric, tech-led, self-sourced large deal focus was to unlock growth first. Results were immediate. FSOL reported its highest-ever deal ACV in FY24, only to exceed it by 60% in FY25. The average size of large deals rose by 40%, aided by a USD 50mn+ BPaaS deal, reflecting a proactive shift towards outcome- based engagements. FSOL is consistently winning against larger as well as smaller undifferentiated players. These are strong underpinnings for predictable, consistent growth. FY26 organic growth guidance of 10- 12% cc, on top of 15% cc organic growth in FY25 underscores this. With initial investments in sales/leadership behind, margins should improve too.

Investment View

We build 13% USD revenue CAGR and 200bps EBIT margin expansion over FY25-28E, driving 25% EPS CAGR. FSOL's diversified and relatively de-risked portfolio lends earnings visibility. We, therefore, value the stock at 25x, in line with listed Indian BPO players, reasonable in our view. We initiate with ADD and a TP of INR 370.

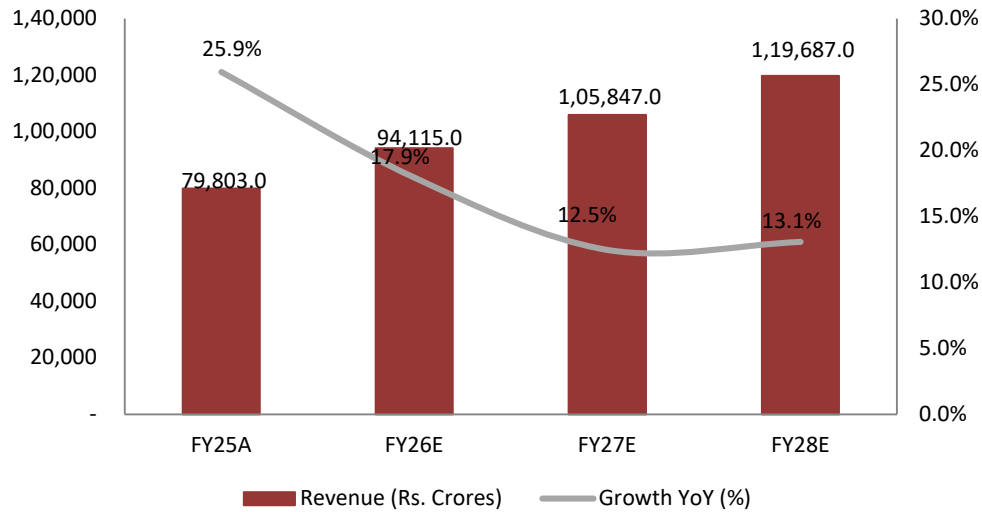
Particulars (Rs in INR Million)	FY25A	FY26E	FY27E	FY28E
Net Sales	79803	94115	105847	119687
EBITDA	12076	15006	17522	20514
Adjusted Net Profit	5944	7596	9406	11641
ROIC	14.60%	16.00%	18.40%	21.10%
ROE	15.20%	17.80%	19.80%	21.40%
P/E (x)	38.7	30.6	24.5	19.8
EV/EBITDA (x)	19.7	15.7	13.3	11



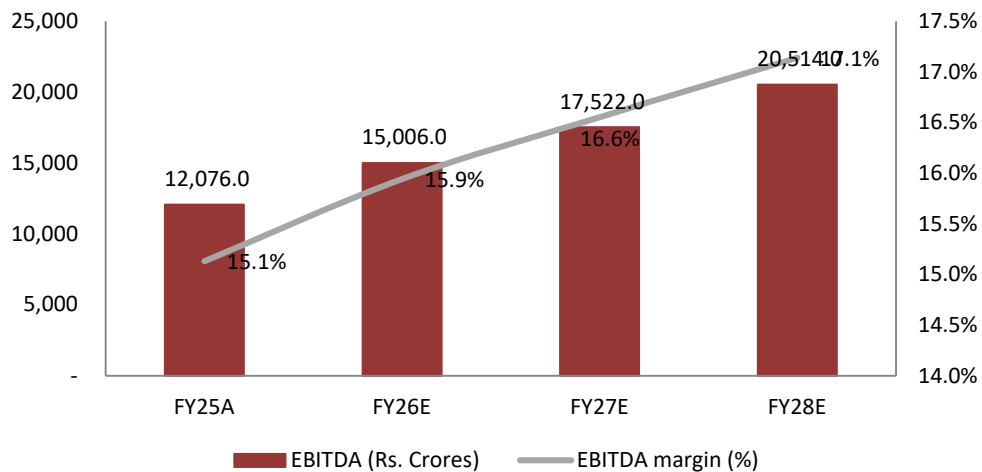
Investor Rationale

- Firstsource has delivered a turnaround, with 23% YoY revenue growth in FY25 (vs. muted trends in FY23-24). On an organic basis, Firstsource grew 15% YoY in FY25, the highest organic growth rate among all listed peers (Exhibit 92). Additionally, its FY26 growth guidance is amongst the highest in the industry at 13-15% (Exhibit 93). Over 2HFY24, the company expanded its sales team by a third and assigned dedicated client partners to strengthen account coverage. It onboarded 50+ strategic and tech partners to augment capabilities (Exhibit 68) and established adjacencies through new operations in Australia, tech-focused acquisitions, and launch of BPaaS healthcare service line. FY25 ACV was 60% above FY24's record ACV, with increased focus on top clients as average size of large deals went up by 40%, aided by the USD 50mn+ BPaaS deal.
- Firstsource has embedded AI at the core of its transformation, targeting AI infusion in BPS platforms (relAI, AccunAI), AI application in business functions, embedding AI in managed services, and providing AI-as-a-service. It is monetising GenAI through data labelling/annotation and LLM training services, creating adjacencies that expand its TAM. It is increasingly moving towards outcome-based pricing, with 50%+ contracts following a non-linear construct – e.g., pricing as a % of debt collected or % of PMPM savings in healthcare. These initiatives are a part of its UnBPO strategy, which focuses on outcome-driven commercial models, fluid talent models, technology-led leverage over cost arbitrage, and AI infusion in workflows. This positions Firstsource as one of the few leading players with a scalable, monetisable AI play.
- At ~USD 1bn scale, Firstsource sits in the sweet spot of the BPO industry where mid-tier players are growing the fastest (CAGR 2020-24: ~9% vs. ~6% for top 10). These firms are winning share by being agile and embedding GenAI into offerings. BPS outsourcing penetration itself has risen by ~140bps over CY20-24. Firstsource combines industry-specific offerings (notably in healthcare RCM, BFSI, and CMT) with new-gen capabilities – proprietary AI platforms, AI-focused partner ecosystem, and domain-specific LLMs. This allows the company to capture emerging AI-driven budgets. With a c.0.5% market share gain in FY25, we believe Firstsource is well-placed to strengthen its positioning over the next few years.
- Margins, earlier constrained by an onsite-heavy mix, are now expanding on the back of right-shoring, automation, and delivery pyramid optimisation. Since the strategy rollout in 2QFY24, EBIT margin has expanded from 10.6% to 11.3% (+70bps). The management has guided for EBIT margin expansion of 50-75bps for FY26. We build in 200bps EBIT margin expansion over FY25-FY28E, driving 25% EPS CAGR. Deleveraging and lower finance costs further support earnings momentum, positioning Firstsource for a valuation re-rating.
- We value the stock at 25x 24-M forward EPS, implying 1x PEG. Our target multiple is in line with peer multiples. This, we believe, is reasonable given FSOL's diversified and relatively de-risked portfolio, providing better visibility vis-à-vis peers.

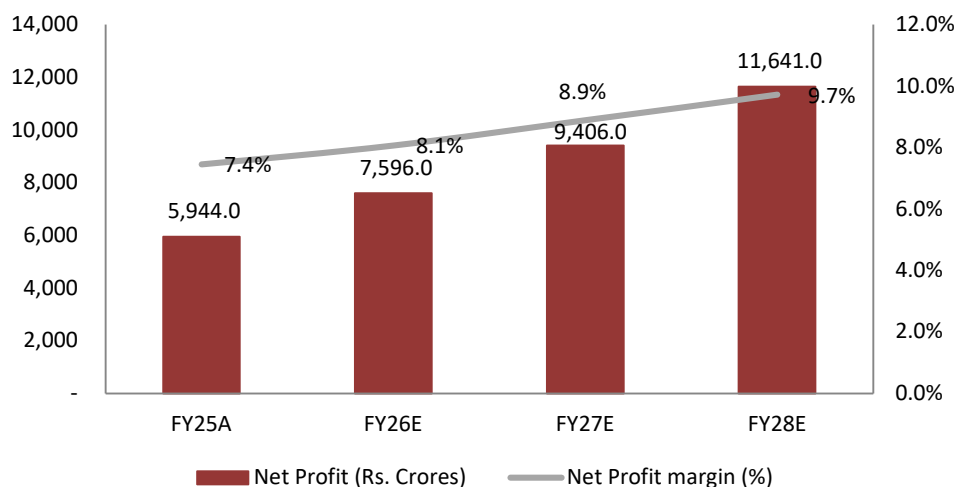
Revenue growth to be steady



EBITDA to grow going ahead



Net profit to surge going ahead





Outlook and Valuation

We build 13% USD revenue CAGR and 200bps EBIT margin expansion over FY25-28E, driving 25% EPS CAGR. FSOL's diversified and relatively de-risked portfolio lends earnings visibility. We, therefore, value the stock at 25x, in line with listed Indian BPO players, reasonable in our view. We initiate with ADD and a TP of INR 370..

Company Overview

Firstsource (FSOL IN) is India's largest, and most diversified pure-play BPO service provider. With an ARR of c. USD 1bn, it has strengths across micro-segments (mortgages, collections, payer/providers, media).

Despite the diversification, it works with some leading clients in each of its focussed sub-verticals, reflecting its "inch-wide, mile-deep" strategy.

FSOL evolved into its current diversified self through multiple acquisitions over the years.

That resulted in siloed capabilities limiting synergies/cross-sell motion, reflected in growth under-performance over FY15-20.

Besides, FSOL, just 2 years back, faced challenges specific to the industry – advent of GenAI, sector – rising Fed rate-led mortgage volume contraction, as well as client – offshoring in top CMT account, compounding matters further.



Balance sheet (Consolidated)

Particulars (Rs in INR Million)	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	40976	44420	50421	58316
Share Capital	6970	6970	6970	6970
Reserves & Surplus	34006	37450	43451	51346
Preference Share Capital	0	0	0	0
Minority Interest	4	4	4	4
Total Loans	15327	14038	13438	12838
Def. Tax Liab. / Assets (-)	-1090	-1309	-1309	-1309
Total - Equity & Liab.	55218	57153	62554	69849
Net Fixed Assets	50427	51426	52284	53417
Gross Fixed Assets	11889	13673	15204	16911
Intangible Assets	38047	37753	37080	36507
Less: Depn. & Amort.	0	0	0	0
Capital WIP	491	0	0	0
Investments	731	1274	1274	1274
Current Assets	25330	28499	35234	43983
Inventories	0	0	0	0
Sundry Debtors	16860	18565	21749	24593
Cash & Bank Balances	1542	1857	4950	10315
Loans & Advances	128	129	129	129
Other Current Assets	6800	7948	8406	8946
Current Liab. & Prov.	21270	24046	26239	28825
Current Liabilities	12626	15370	17093	19125
Provisions & Others	8644	8676	9146	9700
Net Current Assets	4060	4453	8996	15158
Total - Assets	55218	57153	62554	69849

Profit & Loss Account (Consolidated)

Particulars (Rs in INR Million)	FY25A	FY26E	FY27E	FY28E
Net Sales	79803	94115	105847	119687
Sales Growth	25.90%	17.90%	12.50%	13.10%
Other Operating Income	0	0	0	0
Total Revenue	79803	94115	105847	119687
Cost of Goods Sold/Op. Exp	0	0	0	0
Personnel Cost	49958	56405	62825	69920
Other Expenses	17769	22704	25500	29254
EBITDA	12076	15006	17522	20514
EBITDA Margin	15.10%	15.90%	16.60%	17.10%
EBITDA Growth	26.30%	24.30%	16.80%	17.10%
Depn. & Amort.	3270	4005	4392	4867
EBIT	8806	11001	13130	15647
Other Income	-9	240	332	653
Finance Cost	1479	1675	1556	1564
PBT before Excep. & Forex	7318	9565	11906	14736
Excep. & Forex Inc./Loss(-)	88	0	0	0
PBT	7407	9565	11906	14736
Taxes	1462	1969	2500	3094
Extraordinary Inc./Loss(-)	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0
Reported Net Profit	5944	7596	9406	11641
Adjusted Net Profit	5944	7596	9406	11641
Net Margin	7.40%	8.10%	8.90%	9.70%
Diluted Share Cap. (mn)	706	712.1	706	706
Diluted EPS (INR)	8.4	10.7	13.3	16.5
Diluted EPS Growth	15.50%	26.70%	24.90%	23.80%



Cash Flow (Consolidated)

Cash Flows (INR Mn)	FY25A	FY26E	FY27E	FY28E
Profit before Tax	7407	9565	11906	14736
Depn. & Amort.	3270	4005	4392	4867
Net Interest Exp. / Inc. (-)	1452	1503	1224	911
Inc (-) / Dec in WCap.	-4944	-2517	-3391	-2980
Others	1045	121	0	0
Taxes Paid	-1219	-1693	-2500	-3094
Operating Cash Flow	7011	10983	11631	14439
Capex	-2236	-3197	-4271	-4904
Free Cash Flow	4775	7787	7360	9535
Inc (-) / Dec in Investments	-160	-531	0	0
Others	-5063	155	332	653
Investing Cash Flow	-7459	-3572	-3939	-4251
Inc / Dec (-) in Capital	0	0	0	0
Dividend + Tax thereon	-2759	-3136	-3405	-3746
Inc / Dec (-) in Loans	6787	-1334	0	0
Others	-3802	-2663	-1193	-1077
Financing Cash Flow	226	-7133	-4598	-4822
Inc / Dec (-) in Cash	-222	278	3093	5365
Opening Cash Balance	1764	1575	1857	4950
Closing Cash Balance	1542	1853	4950	10315

Key Ratios & Valuations (Consolidated)

Particulars	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	59.5	63.7	74	85.6
ROIC	14.60%	16.00%	18.40%	21.10%
ROE	15.20%	17.80%	19.80%	21.40%
Net Debt/Equity (x)	0.3	0.2	0.1	0
P/E (x)	38.7	30.6	24.5	19.8
P/B (x)	5.5	5.1	4.4	3.8
EV/EBITDA (x)	19.7	15.7	13.3	11
EV/Sales (x)	3	2.5	2.2	1.9
Debtor days	77	72	75	75
Inventory days	0	0	0	0
Creditor days	21	25	26	26



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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