

## Operationally healthy performance...

Firstsource Solution (FSL)'s dollar revenues increased 8.2% QoQ to US\$199.9 million. EBIT margins increased 60 bps QoQ to 12.6% mainly led by higher gross margins. The company has incurred one off exceptional expense of ₹ 109 crore. Hence, PAT declined 61% QoQ to ₹ 46.7 crore. Adjusting for the exceptional item, PAT increased 8.1% QoQ to ₹ 130.9 crore. FSL has guided 15-18% YoY growth in FY22E revenues in constant currency terms and operating margins in the range of 11.8-12.3%.

## Diversification in CMT, traction in healthcare to drive growth

The company's robust growth guidance of 15-18% in CC terms is based on improvement in healthcare (especially provider business) and improvement in banking (led by growth in collection & fintech and UK banking). In addition, FSL expects communication, media & technology to gain traction led by improvement in top client and addition of new logos in US & UK in media & e-commerce. The company expects moderation in growth in mortgage (post a robust year) mainly led by slowdown in refinance. Further, we expect the healthcare segment to witness improved traction led by acquisition of PatientMatters (cross sell opportunities), traction in tele health & patient monitoring. In addition, FSL has seen healthy client wins of 11 new clients in Q4FY21 and healthy headcount addition (up 3x in FY21) indicating robust demand in coming quarters. This, coupled with addition of leadership in sales & delivery (especially in healthcare), penetration in technology segment, cross-selling of platforms business, increase in deal size and focus on client mining bodes well for long term growth (FSL aspires to be in top quartile of growth in BPO). We expect dollar revenues to increase at a CAGR of 16% in FY20-23E.

## Operating leverage, cost efficiencies to drive margins

There are multiple headwinds for margins led by wage hike, tighter labour market, investment in leadership, improving talent capabilities, hiring & training and sales. However, traction in outcome based provider revenues, improvement in digital segment, higher offshoring and revenue growth are expected to offset the headwinds. Consequently, we bake in 93 bps improvement in EBIT margins to 12.7% over FY21-23E.

## Valuation & Outlook

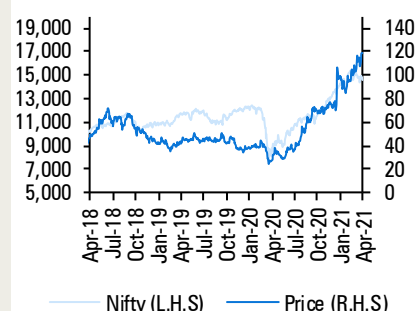
Improvement in provider segment, traction in collection segment, diversification in CMT segment, new logo wins, focus on client mining cross-selling of platforms business and hiring of leaders bodes well for long term revenue growth. This coupled with improving margins, prompt us to maintain **BUY** on the stock with a target price of ₹ 151 (15x PE FY23E EPS) (earlier target price ₹ 120/share).



### Particulars

Particular	Amount
Market Cap (₹ Crore)	8,789.5
Total Debt (₹ Crore)	604.5
Cash and Invests (₹ Crore)	219.9
EV (₹ Crore)	9,174.1
52 week H/L	134/ 29
Equity capital	696.1
Face value	10.0

### Price Performance



### Key Risk

- Deceleration in banking, CMT verticals to impact revenue growth
- Lower-than-expected cost efficiencies may impact margins adversely

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	FY(21-23E)
Net Sales	3,826	4,099	5,078	6,108	7,048	17.8%
EBITDA	535	629	804	1,002	1,184	21.3%
Margins (%)	14.0	15.3	15.8	16.4	16.8	
Net Profit	378	340	362	578	696	38.7%
EPS (₹)	5.4	4.9	5.1	8.2	9.9	
P/E	23.5	26.1	24.5	15.4	12.8	
RoNW (%)	13.9	12.3	12.9	18.7	20.7	
RoCE (%)	14.0	11.1	15.5	18.7	21.1	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement ₹ crore				
	FY20	FY21	FY22E	FY23E
<b>Total Revenues</b>	<b>4,099</b>	<b>5,078</b>	<b>6,108</b>	<b>7,048</b>
Growth (%)	7.1	23.9	20.3	15.4
Employee expenses	2,774	3,467	4,153	4,779
Other Expenses	696	807	953	1,085
<b>EBITDA</b>	<b>629</b>	<b>804</b>	<b>1,002</b>	<b>1,184</b>
Growth (%)	17.4	27.9	24.5	18.2
Depreciation & Amortization	185	206	250	289
Other Income	9	1	4	4
Interest	58	52	42	29
PBT before Exceptional Items	394	432	713	870
Growth (%)	(9.6)	9.5	65.2	21.9
Tax	55	70	136	174
PAT before Excp Items	340	362	578	696
Exceptional items				
PAT before MI	340	362	578	696
Minority Int & Pft. from associates	(0)	0	0	0
<b>PAT</b>	<b>340</b>	<b>362</b>	<b>578</b>	<b>696</b>
Growth (%)	(10.1)	6.5	59.8	20.4
EPS	4.9	5.1	8.2	9.9
EPS (Growth %)	(10.3)	4.9	59.8	20.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
	FY20	FY21	FY22E	FY23E
<b>Profit before Tax</b>	<b>394</b>	<b>432</b>	<b>713</b>	<b>870</b>
Depreciation & Amortization	185	206	250	289
WC changes	(135)	290	(75)	(226)
Other non cash adju.	(34)	48	(98)	(149)
<b>CF from operations</b>	<b>410</b>	<b>976</b>	<b>791</b>	<b>785</b>
Capital expenditure	(95)	(173)	(287)	(175)
Δ in investments	128	(176)	-	-
Other investing cash flow	(18)	1	4	4
<b>CF from investing Activities</b>	<b>14</b>	<b>(350)</b>	<b>(283)</b>	<b>(171)</b>
Issue of equity	8	(57)	-	-
Δ in debt funds	150	(376)	(124)	(50)
Dividends paid	(376)	(204)	(289)	(424)
Other financing cash flow	(58)	(51)	(42)	(29)
<b>CF from Financial Activities</b>	<b>(277)</b>	<b>(689)</b>	<b>(548)</b>	<b>(597)</b>
Δ in cash and cash bank balanc	148	(63)	(39)	17
Effect of exchange rate changes	(5)			
Opening cash	47	191	137	98
<b>Closing cash</b>	<b>191</b>	<b>137</b>	<b>98</b>	<b>115</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore				
Particulars	FY20	FY21	FY22E	FY23E
Equity	694	696	696	696
Reserves & Surplus	2,072	2,103	2,392	2,663
Networth	2,765	2,799	3,088	3,360
Minority Interest	1	1	1	1
LT liabilities & provisions	487	461	399	399
Total Debt	837	604	543	493
<b>Source of funds</b>	<b>4,090</b>	<b>3,865</b>	<b>4,030</b>	<b>4,251</b>
Net fixed assets	588	749	878	857
CWIP	-	-	-	-
Goodwill	2,232	2,195	2,195	2,195
Other non current assets	662	655	720	937
Loans and advances	-	-	-	-
Current Investments	-	83	83	83
Debtors	557	577	695	803
Cash & Cash equivalents	191	137	98	115
Other current assets	357	435	524	605
Trade payables	95	279	336	388
Current liabilities	355	604	727	840
Provisions	46	82	99	115
<b>Application of funds</b>	<b>4,090</b>	<b>3,865</b>	<b>4,030</b>	<b>4,251</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS-diluted	4.9	5.2	8.3	10.0
DPS	2.5	3.0	4.1	6.0
BV	40.3	40.8	45.0	48.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.3	15.8	16.4	16.8
PBT Margin	9.6	8.5	11.7	12.3
PAT Margin	8.3	7.1	9.5	9.9
<b>Return Ratios (%)</b>				
RoNW	12.3	12.9	18.7	20.7
RoCE	11.1	15.5	18.7	21.1
<b>Valuation Ratios (x)</b>				
P/E	26.1	24.5	15.4	12.8
EV / EBITDA	15.0	11.4	9.1	7.7
Price to Book Value	3.2	3.1	2.8	2.6
EV / Net Sales	2.3	1.8	1.5	1.3
Mcap / Net Sales	2.1	1.7	1.4	1.2
<b>Turnover Ratios</b>				
Debtor days	50	41	42	42
Creditors days	8	20	20	20
<b>Solvency Ratios</b>				
Total Debt / Equity	0.3	0.2	0.2	0.1
Current Ratio	1.8	1.0	1.0	1.0
Quick Ratio	1.8	1.0	1.0	1.0
Net Debt / EBITDA	1.0	0.5	0.4	0.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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