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SOLUTIONS**

| IT Services

| 29 October 2024

Significant upgrade to revenue guidance

- **Big upgrade to revenue growth guidance with possibly more on the anvil in 2HFY25**
- **Likely to hit the US\$1bn revenue run rate mark probably one year early. Becomes a more diversified player with acquisition of Ascensos**
- **Likely to be among the earnings growth leaders in the Tier-2 set in the medium term. Will be initiating coverage soon**

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Strong organic revenue performance: Revenue grew 6.9% QoQ with organic growth adjusted for one month of Ascensos at 4.2%. We estimated a number of 2% in CC QoQ organic growth. YoY growth revenue in CC was 22.7%, and excluding Ascensos, CC growth reached 19.6%, marking the highest growth in 12 quarters.

Significant increase in revenue guidance: The original guidance for FY25 was 10% to 13% growth in CC terms, which was updated to 11.5% to 13.5% after 1Q. The guidance now stands at 14.5% to 15.5% organic growth, excluding a 5% contribution from Ascensos. The FSOL sales engine is performing effectively, supported by a revamped go-to-market strategy and rigorous execution. This confidence has led to an increase in the growth guidance.

Growth guidance seems conservative: Despite the strong deal wins, the new growth guidance does not assume any pick up in QoQ revenue growth in organic terms. The management indicates that the guidance is based on its current visibility.

Margin guidance trimmed a bit at the upper end: Expected normalized EBIT margin for FY25 (excluding one-time charges) to be between 11% and 11.5% This was 11-12% earlier. We believe the upper end was trimmed due to enhanced investments.

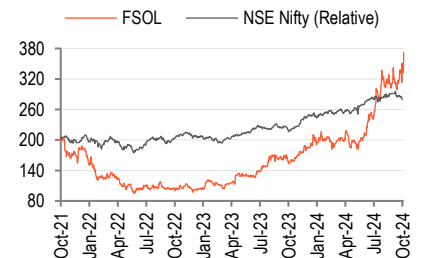
Recent investments focused on three main areas: Expanding the sales and marketing/ account management teams, enhancing leadership and solutions capabilities, and modernizing services with AI and automation. While these initiatives may delay the expected improvements in margins, FSOL expects a consistent annual margin improvement of 50 to 75 bps in the medium term from FY26, regardless of the current investment strategy.

Deal wins good and new logo addition strong: 3 large deals (ACV >US\$5mn) were secured in telecommunications, mortgage, healthcare, and financial services sectors. 13 new logos were added, marking the highest in two years. FSOL believes that its success is due to leveraging of deep industry and functional expertise, partnerships in the technology ecosystem, and ability to proactively bring automation and AI.

Ticker/Price	FSOL IN/Rs 373
Market cap	US\$ 3.0bn
Free float	45%
3M ADV	US\$ 34.7mn
52wk high/low	Rs 378/Rs 154
Promoter/FPI/DII	54%/12%/19%

Source: NSE | Price as of 28 Oct 2024

Stock performance



Source: NSE



UK weak: 2Q growth was driven by US with 8.3% QoQ growth in CC terms. Europe grew 3.6%. Organic revenues excluding Ascensos was down ~4% QoQ in UK due to macroeconomic challenges there.

Performance by Industry Vertical:

- **BFS (~34% of revenue in 2QFY25):** Grew 1% QoQ, 3.3% YoY in CC.
 - 5 new logos were added reflecting positive client expansion. While there is optimism about growth in BFS for the remainder of FY25, macroeconomic uncertainties remain. Recent fluctuations in mortgage rates in the US and fixed-rate loan statistics indicate a complex environment.
- **Healthcare (~36%):** Revenue rose 10% QoQ and 38% YoY in CC. 5 new logos added. Integration of QBSS acquisition (made in May 2024) is on track.
 - The healthcare segment has been a strong growth driver, especially from the payer side, with 2Q demonstrating balanced performance in both payer and provider segments. Decision timelines for deals have extended due to open enrollment and uncertainties surrounding the US Presidential election. However, there is optimism for a rebound, supported by a robust pipeline and advanced-stage deals expected to materialize in 3Q. On the provider side, the offshore revenue cycle management market is promising, enhanced by the QBSS acquisition, which has already resulted in four joint deal wins, validating the strategic rationale for the acquisition.
- **CMT (~21%):** Grew 1% QoQ and 22% YoY in CC. 2 new logos added.
 - Pipeline looks promising, suggesting a favorable trajectory for continued growth in the vertical.
- **Diverse Portfolio (~8%):** Increased 49% QoQ and 85% YoY in CC. This includes the retail vertical that came through the Ascensos acquisition and the traditional business from utilities companies.

Geographic growth picture

- UK business experienced organic decline in 2Q but is expected to improve in 2H. Recent large deal wins have focused on strategic partnerships rather than typical headcount-centric contracts, involving AI and automation to support clients' transformation agendas. These deals may not contribute to revenue in a linear fashion, as they follow a unique ramp-up trajectory compared to standard RFP-led agreements.
- The UK economy is facing pressure, leading companies to reevaluate their cost structures and competitiveness, creating opportunities for collaboration on transformation efforts.
- While recent growth has been weak, the outlook in Europe remains positive, with a strong pipeline of large strategic deals anticipated to yield results in 2H. The 2Q results should not be seen as indicative of a longer-term trend.

Acquisition of Ascensos:

- The acquisition enhances FSOL's capabilities in BPM services, particularly in the retail, consumer, and e-commerce sectors. Founded in 2013 and headquartered in Scotland, Ascensos has around 2,500 employees and it is spread across the UK, South Africa, Romania, Trinidad and Tobago, and Turkey and has capabilities of providing customer support across 11 different languages including languages as varied as Arabic, Mandarin, and Lithuanian. It has deep and long-standing relationships with some of the top high-street retail brands in the UK and the average tenure of the top five clients is more than four years.
- Strategically, this acquisition aligns with the One Firstsource framework by expanding presence in a rapidly growing US\$35bn retail and e-commerce market. Ascensos strengthens delivery capabilities in key locations, including South Africa, enhancing appeal to UK clients seeking cost-effective outsourcing solutions. Additionally, Ascensos fills a gap in multilingual support for global clients, particularly in consumer tech.
- The combination is expected to yield significant revenue synergies, leveraging Ascensos's domain expertise alongside Firstsource's AI and automation strengths.
- Rs 3 bn was paid in this quarter for the Ascensos acquisition, which involved a 100% stake at a total purchase consideration of GBP42mn, including GBP9.5mn contingent on achieving predefined milestones.
- The management indicated that Ascensos' margin profile is slightly lower than the company's own margins but is not materially different from FSL

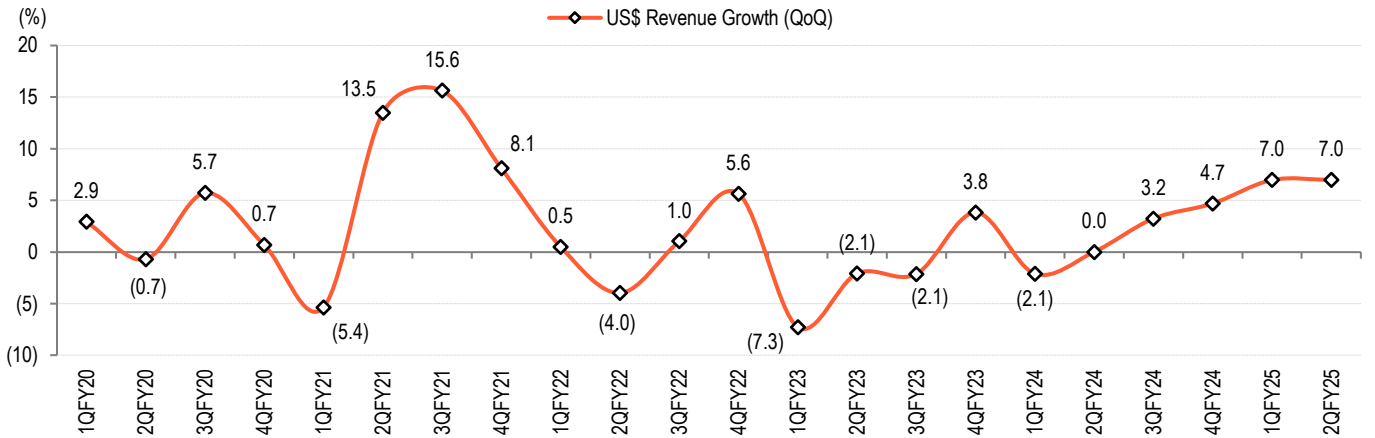
Firstsource is expanding its collections services beyond traditional debt collections for credit card issuers to fintech companies and non-BFS verticals such as healthcare and utilities.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E Mar (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	2QFY25E	Deviation (%)
Net Sales (US\$ mn)	186	215	230	23.7	7.0	221	4.0
Net Sales	15,400	17,911	19,254	25.0	7.5	18,524	3.9
Cost of Sales	13,112	15,212	16,381	24.9	7.7	15,827	3.5
% of Sales	85.1	84.9	85.1			85.4	
EBITDA Margin	2,288	2,699	2,873	25.6	6.4	2,698	6.5
% of Sales	14.9	15.1	14.9			14.6	
Depreciation	654	729	792	21.1	8.6	746	6.1
EBIT	1,634	1,970	2,081	27.4	5.6	1,951	6.6
EBIT Margin (%)	10.6	11.0	10.8			10.5	
Interest Expenses	244	287	330	35.2	15.0	324	1.8
Other Income	153	-11	-40	(126.1)	263.6	88	(145.4)
PBT	1,543	1,672	1,711	10.9	2.3	1,715	(0.2)
Provision for Tax	278	320	328	18.0	2.5	328	(0.0)
Effective Tax Rate	18.0	19.1	19.2			19.1	
PAT (Reported)	1,265	1,352	1,383	9.3	2.3	1,387	(0.3)
NPM (%)	8.2	7.5	7.2			7.5	(4.1)

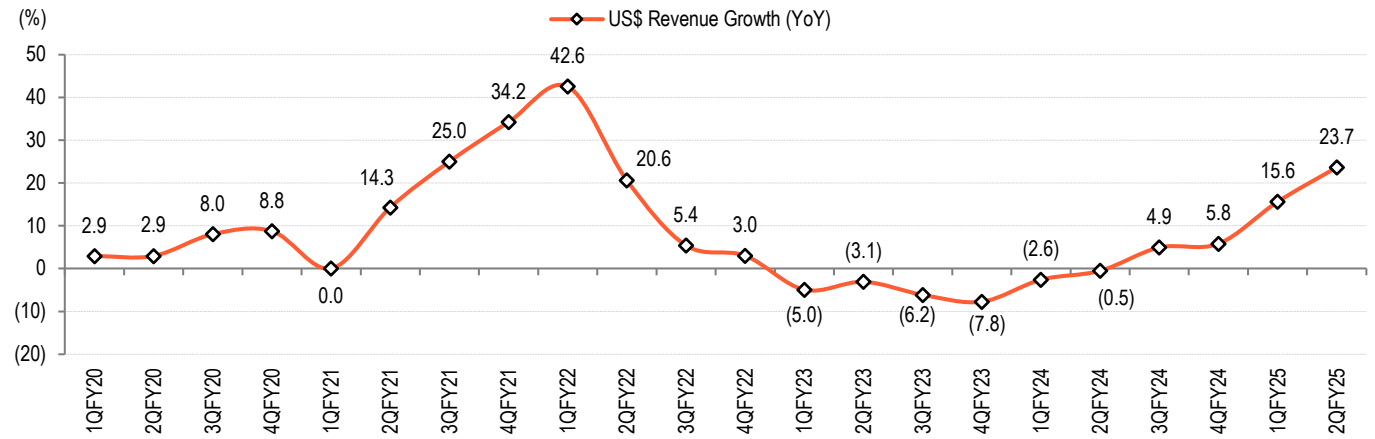
Source: Company, BOBCAPS Research

Fig 2 – QoQ US\$ Revenue Growth



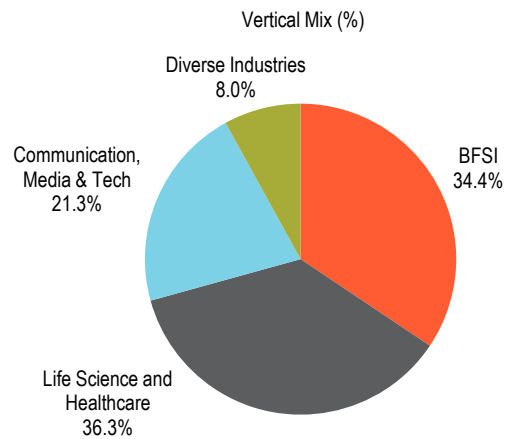
Source: Company, BOBCAPS Research

Fig 3 – YoY US\$ Revenue Growth



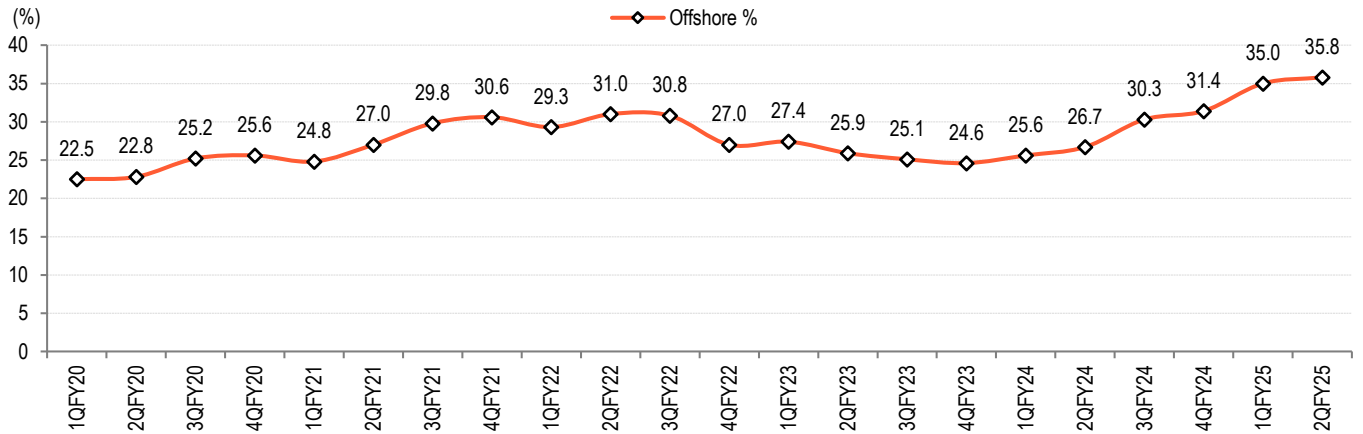
Source: Company, BOBCAPS Research

Fig 4 – 2QFY25 Vertical Revenue Mix



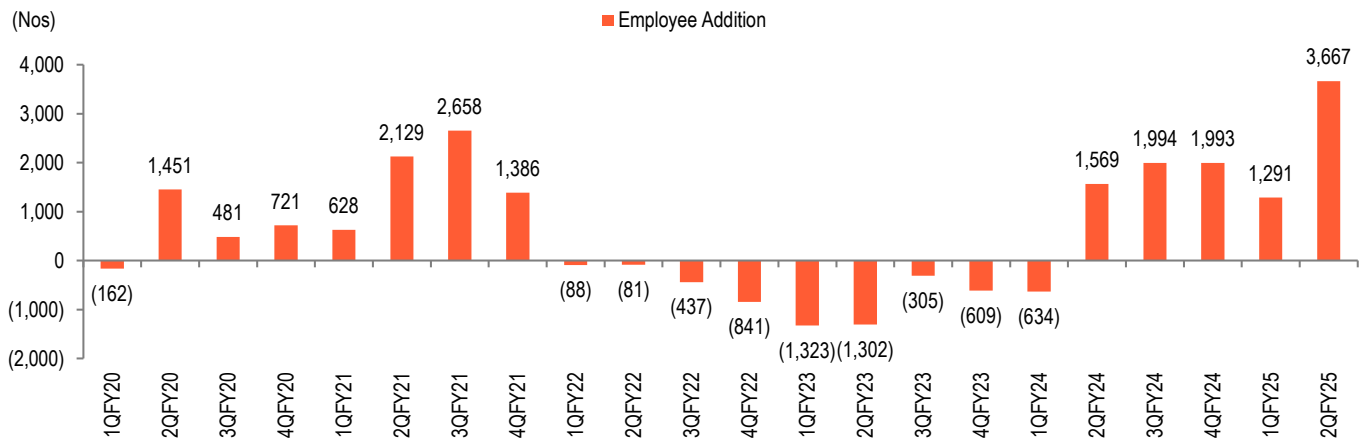
Source: Company, BOBCAPS Research

Fig 5 – Revenue by Delivery – Offshore trend (%)



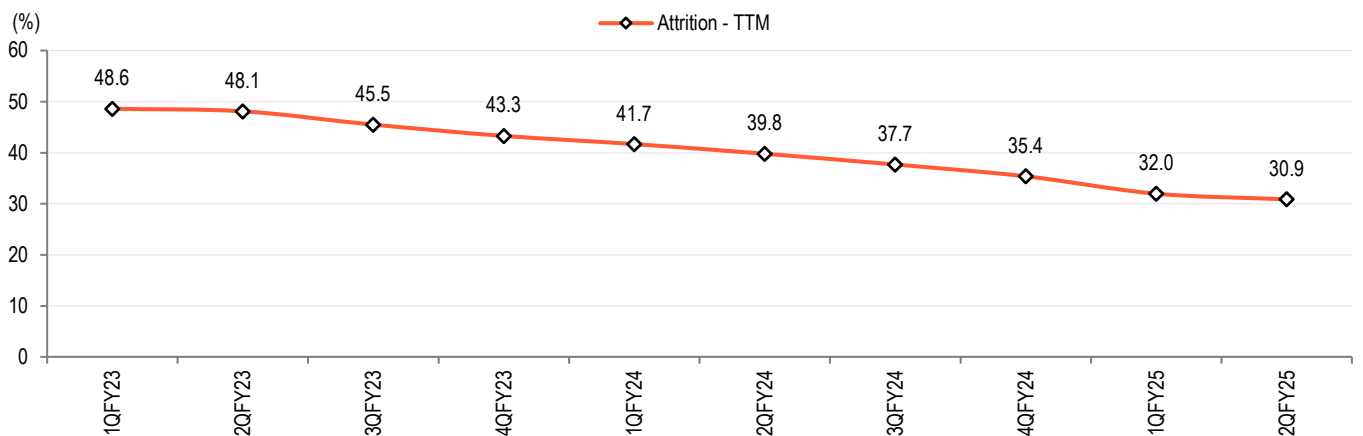
Source: Company, BOBCAPS Research

Fig 6 – Net Employee Addition



Source: Company, BOBCAPS Research

Fig 7 – TTM Attrition Rate



Source: Company, BOBCAPS Research

Fig 8 – Quarterly Snapshot

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
INR/US\$	76.0	78.8	82.1	81.9	82.1	82.9	83.1	83.0	83.4	83.8
Revenue (in US\$ mn)	191	187	183	190	186	186	192	201	215	230
(Rs mn)										
Revenue	14,723	14,882	15,049	15,568	15,292	15,400	15,966	16,705	17,911	19,254
EBITDA	1,810	1,917	2,096	2,441	2,402	2,288	2,372	2,504	2,699	2,873
EBIT	1,171	1,254	1,409	1,799	1,789	1,634	1,709	1,831	1,970	2,081
Other income	54	482	610	105	6	153	134	75	(11)	(40)
PBT	1,048	1,549	1,836	1,719	1,552	1,543	1,608	1,594	1,673	1,711
Tax	197	255	257	306	293	278	321	258	320	328
PAT	851	1,294	1,579	1,413	1,259	1,265	1,287	1,336	1,353	1,383
Number of shares	703.3	703.3	701.8	699.5	699.4	702.8	699.2	703.2	704.7	705.6
EPS	1.2	1.8	2.3	2.0	1.8	1.8	1.8	1.9	1.9	2.0
YoY Growth (%)										
US\$ Revenue	(5.0)	(3.1)	(6.2)	(7.8)	(2.6)	(0.5)	4.9	5.8	15.6	23.7
INR Revenues	(0.8)	4.2	2.8	0.8	3.9	3.5	6.1	7.3	17.1	25.0
EBITDA	(24.0)	(19.7)	(11.9)	(0.3)	32.7	19.4	13.1	2.6	12.4	25.6
EBIT	(34.9)	(29.9)	(20.0)	2.7	52.8	30.3	21.3	1.8	10.1	27.4
Net profit	(36.7)	(4.1)	16.5	6.7	47.9	(2.2)	(18.5)	(5.4)	7.5	9.3
QoQ Growth (%)										
US\$ Revenues	(7.28)	(2.1)	(2.1)	3.83	(2.11)	-	3.23	4.69	6.97	6.98
INR Revenues	(4.6)	1.1	1.1	3.4	(1.8)	0.7	3.7	4.6	7.2	7.5
EBITDA	(26.1)	5.9	9.3	16.5	(1.6)	(4.7)	3.7	5.6	7.8	6.4
EBIT	(33.2)	7.1	12.4	27.7	(0.6)	(8.7)	4.6	7.2	7.6	5.6
Net profit	(35.7)	52.1	22.0	(10.5)	(10.9)	0.5	1.7	3.8	1.3	2.2
Margins (%)										
EBITDA	12.3	12.9	13.9	15.7	15.7	14.9	14.9	15.0	15.1	14.9
EBIT	8.0	8.4	9.4	11.6	11.7	10.6	10.7	11.0	11.0	10.8
PAT	5.8	8.7	10.5	9.1	8.2	8.2	8.1	8.0	7.6	7.2
SGA	4.3	4.5	4.6	4.1	4.0	4.2	4.2	4.0	4.1	4.1

Source: Company, BOBCAPS Research

Fig 9 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
P and L (Rs mn)										
Revenue	14,723	14,882	15,049	15,568	15,292	15,400	15,966	16,705	17,911	19,254
EBITDA	1,810	1,917	2,096	2,441	2,402	2,288	2,372	2,504	2,699	2,873
EBIT	1,171	1,254	1,409	1,799	1,789	1,634	1,709	1,831	1,970	2,081
PAT	851	1,294	1,579	1,413	1,259	1,265	1,287	1,336	1,353	1,383
Vertical Mix (%)										
BFSI	46.3	43.4	41.8	40.3	40.8	40.8	38.3	37.3	36.4	34.4
Life Science and Healthcare	32.1	34.5	34.2	33.2	32.6	32.7	33.5	32.9	35.7	36.3
Communication, Media & Tech	20.2	20.2	21.6	22.3	21.8	21.2	22.5	23.6	22.3	21.3
Diverse Industries	1.4	1.9	2.4	4.2	4.8	5.3	5.7	6.2	5.6	8.0
Geographic Mix (%)										
North America	68.4	67.2	64.9	63.3	63.5	65.1	65.4	65.0	68.2	68.5
Europe, Middle East and Africa	30.1	31.3	34.1	36.3	36.4	34.8	34.5	34.9	31.8	31.4
ROW	1.5	1.5	1.0	0.4	0.1	0.1	0.1	0.1	0.0	0.1
Delivery (%)										
Offshore	27.4	25.9	25.1	24.6	25.6	26.7	30.3	31.4	35	35.8
Onsite	72.6	74.1	74.9	75.4	74.4	73.3	69.7	68.6	65	64.2
Clients Concentration (%)										
Top Client	15.2	14.9	15.8	15.4	14.6	12.7	13.7	14.9	-	-
Top 10 Client									51.5	48.6
Top 5 Client	36.4	36.6	38.5	37.4	37.2	35	35.8	36.7	34.6	32.5
Employee Number	25,234	23,932	23,627	23,018	22,384	23,953	25,947	27,940	29,231	32,898
Net Addition	(1,323)	(1,302)	(305)	(609)	(634)	1,569	1,994	1,993	1,291	3,667
(US\$ mn)										
Revenue	191	187	183	190	186	186	192	201	215	230
EBIT	15	16	17	22	22	20	21	22	24	25
PAT	11	16	19	17	15	15	15	16	16	17
Productivity Metrics										
Per Capita (Annualised)										
Revenue	30,277	31,255	30,982	33,018	33,238	31,061	29,599	28,776	29,421	27,965
EBIT	2,441	2,660	2,904	3,816	3,895	3,292	3,171	3,156	3,231	3,020
PAT	1,774	2,745	3,254	2,997	2,741	2,549	2,388	2,303	2,219	2,007

Source: Company, BOBCAPS Research

Fig 10 – QoQ and YoY

(in US\$)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
QoQ Growth (%)										
Revenue	(7.3)	(2.1)	(2.1)	3.8	(2.1)	0.0	3.2	4.7	7.0	7.0
Geographical Data										
North America	(10.3)	(3.8)	(5.5)	1.3	(1.8)	2.5	3.7	4.0	12.2	7.4
Europe, Middle East and Africa	1.5	1.8	6.6	10.5	(1.8)	(4.4)	2.3	5.9	(2.5)	5.6
ROW	(22.7)	(2.1)	(34.8)	(58.5)	(75.5)	0.0	3.2	4.7	NA	NA
Verticals										
BFSI	(12.4)	(8.2)	(5.7)	0.1	(0.9)	0.0	(3.1)	2.0	4.4	1.1
Life Science and Healthcare	(1.8)	5.2	(3.0)	0.8	(3.9)	0.3	5.8	2.8	16.1	8.8
Communication, Media & Tech	(1.4)	(2.1)	4.6	7.2	(4.3)	(2.8)	9.6	9.8	1.1	2.2
Diverse Industries	(23.6)	32.9	23.6	81.7	11.9	10.4	11.0	13.9	(3.4)	52.8
Delivery										
Offshore	(5.9)	(7.5)	(5.2)	1.8	1.9	4.3	17.1	8.5	19.2	9.4
Onshore	(7.8)	(0.1)	(1.1)	4.5	(3.4)	(1.5)	(1.8)	3.0	1.4	5.7
YoY Growth (%)										
Revenue	(5.0)	(3.1)	(6.2)	(7.8)	(2.6)	(0.5)	4.9	5.8	15.6	23.7
Geographical Data										
North America	(3.9)	(4.8)	(12.7)	(17.4)	(9.6)	(3.6)	5.7	8.6	24.1	30.1
Europe, Middle East and Africa	(8.0)	0.8	12.3	21.7	17.8	10.6	6.1	1.7	1.0	11.6
ROW	9.6	(3.1)	(44.8)	(79.5)	(93.5)	(93.4)	(89.5)	(73.6)	(100.0)	23.7
Verticals										
BFSI	(14.9)	(14.0)	(18.8)	(24.1)	(14.2)	(6.5)	(3.9)	(2.1)	3.1	4.3
Life Science and Healthcare	14.2	12.9	5.9	1.1	(1.1)	(5.7)	2.8	4.8	26.6	37.3
Communication, Media & Tech	(2.1)	0.4	3.4	8.3	5.1	4.4	9.3	12.0	18.2	24.2
Diverse Industries	(33.5)	(8.0)	25.1	127.9	233.9	177.5	149.2	56.2	34.9	86.7
Delivery										
Offshore	(11.1)	(19.0)	(23.5)	(16.0)	(9.0)	2.5	26.7	35.0	58.0	65.8
Onshore	(2)	4	2	(5)	(0)	(2)	(2)	(4)	1	8

Source: Company, BOBCAPS Research

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