**BUY**
**TP: Rs 411 | 16%**

**FIRSTSOURCE SOLUTIONS** | IT Services | 08 February 2025

## Posed to deliver industry leading growth in FY25

- **3QFY25 broadly in line. Estimate organic growth in FY25 is likely at ~16% CC terms. Possibly second best in the Tierr-2 set**
- **Likely to be among the earnings growth leaders in the Tier-2 set in the medium term as EBIT margin moves up from 11% to 14-15%**
- **Upgrade to Buy due to stock price correction. Broadly maintain estimates. Marginal increase in TP. Target PE multiple maintained**

Girish Pai
research@bobcaps.in

**Revenue growth in-line with our estimate, guidance upped:** It grew 8.4% QoQ in USD terms (our estimate 8.0%) and 29.9% YoY. In CC terms, revenue grew 27.7% YoY, the highest in the last 14 quarters. For FY25, revenue growth has been revised upwards to 21.8% to 22.3% in CC terms. Earlier the guided range was 19.5-20.5%. if we assume 600bps from M&A then organic growth is likely at 15.8% to 16.3%- among the highest within Tier-2 peers.

**Margins within the guided band:** EBIT margin was at 11.1% (our estimate:11.4%). The EBIT margin for FY25, excluding one-time charges related to acquisitions, is expected to be in the 11%- 11.5% range. FSOL indicated its target of improvement in EBIT margin by 50-75bps every year until it hits 14-15%.

**Deal wins:** 3 large deals were signed, each with an ACV over US$5mn, marking the third consecutive quarter of at least three large deal wins. 3Q exit deal pipeline is among the highest ever. During the quarter, 13 new logos were added, including five strategic logos, defined as those with potential of annual revenue of at least US$5 mn.

**The primary levers for margin improvement** include optimizing the revenue mix (increasing offshore/near-shore revenue), enhancing staffing models with technology and automation, and continuously modernizing the service offerings. These combined efforts are expected to deliver steady profitability growth in the coming quarters.

**Rating raised to BUY:** While our earnings estimates have largely remained constant, we have revised our rating from 'Hold' to 'Buy'. This change is primarily due to the recent decline in the stock price.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ▲ |

| | |
|---|---|
| Ticker/Price | FSOL IN/Rs 355 |
| Market cap | US$ 2.8bn |
| Free float | 45% |
| 3M ADV | US$ 16.9mn |
| 52wk high/low | Rs 422/Rs 176 |
| Promoter/FPI/DII | 54%/11%/21% |

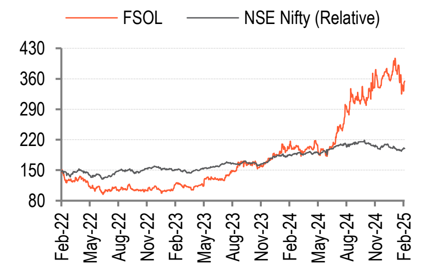
Source: NSE | Price as of 7 Feb 2025

### Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|---|---|---|---|
| Total revenue (Rs mn) | 63,363 | 80,245 | 97,140 |
| EBITDA (Rs mn) | 9,566 | 12,503 | 16,810 |
| Adj. net profit (Rs mn) | 5,147 | 6,335 | 8,612 |
| Adj. EPS (Rs) | 7.3 | 9.2 | 12.5 |
| Adj. ROAE (%) | 14.6 | 15.6 | 18.5 |
| Adj. P/E (x) | 48.3 | 38.6 | 28.3 |
| EV/EBITDA (x) | 25.6 | 19.4 | 14.5 |
| Adj. EPS growth (%) | 0.3 | 25.1 | 36.4 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

## Key Points from the quarter and the earnings call

- Vertical Performance
  - BFS vertical grew by 1.6% QoQ and 8.1% YoY in constant currency terms. Seven new logos were added during the quarter. Investments were made in strengthening sales and solutions teams in this vertical, particularly in North America, to broaden the client base and expand into adjacent segments. The wider, integrated capability portfolio led to an improving revenue trajectory over the last three quarters
  - Deal conversations in the payer segment, which had slowed due to the open enrollment period and US Presidential election, have resumed, with expected closures on several deals in 4Q
  - In the CMT vertical, there was a 3.4% QoQ and 14.2% YoY growth in constant currency terms. One new logo was added in 3Q. The CMT vertical has been one of the fastest growing, driven by expansion among major consumer tech companies with both traditional and non-traditional service propositions. The deal pipeline in the CMT vertical remains healthy and well-diversified, covering both traditional media and communication players, as well as new-age tech companies
  - A healthy deal pipeline is expected in both the retail and utilities verticals, contributing to broad-based growth in the coming quarters
- A total of 1,246 net hires were added in 3Q, bringing the total headcount to 34,144
- The share of revenue from the top five clients has decreased to 29.2% from 35.8%, and from the top 10 clients to 43.5% from 52% in 3QFY24, indicating success in broadening revenue sources and building multiple growth engines.
- Several of the deal wins, including those in the pipeline, are transformative in nature, with a staggered ramp-up curve, resulting in reported revenue over an extended period.
- **Growth expectations:** Growth is expected to remain broad-based across the three core verticals in North America. In the UK, clients are increasingly exploring offshore or near-shore delivery options due to significant cost pressures. Strong interest has been seen from clients in leveraging expanded nearshore capabilities in South Africa and Romania, with two large existing clients signing up in 3Q. Increased discussions around carve out deals are contributing to a significant buildup in the deal pipeline in Europe.
- **Outlook: Healthcare:** The healthcare business is growing strongly, with a balanced footprint between payer and provider segments. This balance, along with a broad-based client portfolio and AI-driven solutions, has fueled the growth in the sector. The deal pipeline in healthcare remains healthy, well-distributed across clients.
- **BFS**: Despite challenges in the broader macro environment, particularly the housing market with high-interest rates, the company has worked to minimize

dependency on these macro factors. Strategies include diversifying the client portfolio and the nature of the work the company does for them.

- The **collections business** remains a strong contributor, particularly in the BFS vertical. This includes first-party, third-party, and legal collections, supported by AI and ML-infused digital platforms. While US consumer resilience and delinquencies are key macro indicators to monitor, collections performance is resilient, and the company aims to expand its footprint in this space further, which will continue to support growth. The company expects margin benefits to continue, with the collections business potentially acting as a margin lever moving into 4Q
- The outlook for annual margin expansion of 50 to 75 bps remains intact for FY26
- AI is still in the early stages of adoption, and the company believes that AI will blur the line between BPM and technology services. While routine, low-end tasks in BPM services may be replaced by AI, the company sees new business opportunities emerging that will be far larger. With its domain expertise and technology combination, the company is positioning itself as a challenger to larger players who might be more reluctant to adapt. Overall, the company feels net positive about the developments in AI, believing that their ability to adapt quickly, combined with specialized solutions, will continue to create opportunities for growth
- The company has moved well past the POC stage. Almost all the current projects the company is responding to in the marketplace now have AI embedded in them as a core capability. The company is winning deals consistently because of this integration. This suggests that AI is no longer just in the experimental phase but is now actively driving revenue-generating projects
- Organic growth remains the primary focus, but inorganic growth through acquisitions is also part of the strategy if it aligns with the company's long-term goals. For an acquisition to happen, it requires more than just filling a capability gap; there must be a value alignment and cultural compatibility with the acquiring company
- The company is outperforming larger incumbents in Gen-AI projects by being more agile and responsive, while incumbents focus on defending their existing business. Some incumbents are hindered by post-merger integration challenges, making them less innovative and insular, creating opportunities for the company to win projects. This dynamic allows the company to compete effectively and gain an edge in the market
- PAT for the quarter was Rs1,603 mn, (7.6% PAT margin), reflecting a 16% QoQ and 25% YoY increase
- 3Q profit includes a one-time net gain of Rs88 mn, which includes:
    - A write-back of Rs651 mn for adjustment on contingent consideration related to earlier acquisitions. The earn-out for the acquisitions was linked to non-revenue or profit targets, which are unlikely to be met, leading to the write-back
    - A charge of Rs284 mn was taken for the change in the estimated useful life of some intangible assets from earlier acquisitions

  - A one-time cost of Rs130 mn was recorded for a potential loss related to certain customer contracts
  - A special bonus provision of Rs150 mn was also made

- The reversal mentioned is related to the QBSS acquisition, made in last quarter of FY24
- A special bonus provision was made for employees due to strong performance, not for specific individuals.
- The impairment charge pertains to a different acquisition and is not truly an impairment but a reassessment of intangible assets related to customer contracts. Some customers did not meet the expected revenue targets. However, most acquisitions are performing better than initially estimated, except for the mortgage acquisition, which was impacted by industry changes
- **Acquisition Announced:** AccunAI, an AI development services provider based in Jaipur, India, was acquired for Rs80mn (100% stake). The startup that also serves as a vendor to FirstSource, providing AI development services and crowdsourcing. The acquisition was made to bring AccunAI's capabilities in-house

**View on the Indian IT services sector:** We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

**Multiple speed breakers post FY25 drives our underweight stance**

Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.

Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.

Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.

Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services

Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyperscalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS

Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach $85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower

The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

**How we are valuing companies**: We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

**Why use a PE multiple that is 1SD lower than 5-year mean of TCS:**

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

**Tier- 2 valuation reflects growth gap between it and Tier-1:**

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely.

### Fig 1 – Quarterly results: Comparison of actuals with estimates

| Y/E Mar (Rsmn) | 3QFY24 | 2QFY25 | 3QFY25 | YoY(%) | QoQ (%) | 3QFY25E | Deviation (%) |
|---|---|---|---|---|---|---|---|
| Net Sales (USD mn) | 192 | 230 | 249 | 29.7 | 8.3 | 248 | 0.3 |
| Net Sales | 15,966 | 19,254 | 21,024 | 31.7 | 9.2 | 20,958 | 0.3 |
| Cost of Sales | 13,594 | 16,381 | 17,847 | 31.3 | 9.0 | 17,773 | 0.4 |
| % of Sales | 85.1 | 85.1 | 84.9 | | | 84.8 | |
| EBITDA Margin | 2,372 | 2,873 | 3,177 | 33.9 | 10.6 | 3,185 | (0.3) |
| % of Sales | 14.9 | 14.9 | 15.1 | | | 15.2 | |
| Depreciation | 663 | 792 | 844 | 27.3 | 6.6 | 805 | 4.8 |
| EBIT | 1,709 | 2,081 | 2,333 | 36.5 | 12.1 | 2,380 | (2.0) |
| EBIT Margin (%) | 10.7 | 10.8 | 11.1 | | | 11.4 | |
| Interest Expenses | 235 | 330 | 375 | 59.6 | 13.6 | 396 | (5.4) |
| Other Income | 134 | (40) | (39) | (129.1) | (2.5) | 90 | (143.1) |
| Exceptional Items | | | 88 | | | | |
| PBT | 1,608 | 1,711 | 2,007 | 24.8 | 17.3 | 2,074 | (3.2) |
| Provision for Tax | 321 | 328 | 404 | 25.9 | 23.2 | 386 | 4.7 |
| Effective Tax Rate | 20.0 | 19.2 | 20.1 | | | 18.6 | |
| PAT (Reported) | 1,287 | 1,383 | 1,603 | 24.6 | 15.9 | 1,688 | (5.1) |
| NPM (%) | 8.1 | 7.2 | 7.6 | | | 8.1 | (5.4) |

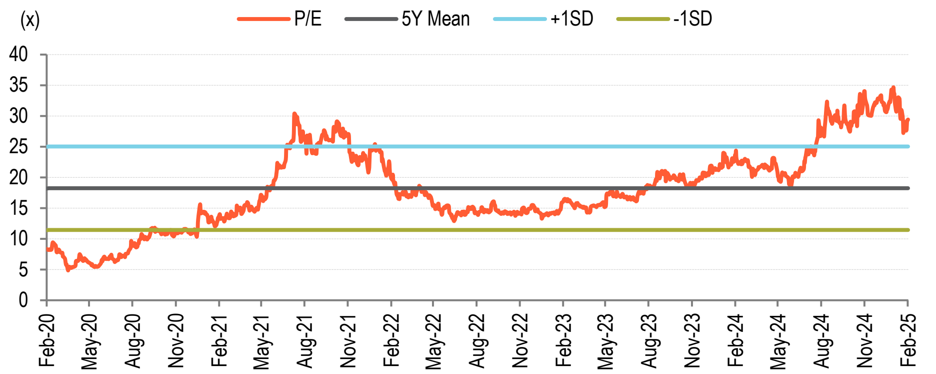
Source: Company, BOBCAPS Research

### Fig 2 – Revised Estimates

| | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| INR/USD | 84.4 | 87.3 | 89.3 | 84.1 | 85.4 | 86.6 | 0.4 | 2.1 | 3.1 |
| USD Revenue (USD mn) | 950 | 1,113 | 1,283 | 950 | 1,120 | 1,291 | 0.0 | (0.6) | (0.6) |
| USD Revenue Growth (%) | 24.2 | 17.1 | 15.3 | 24.2 | 17.9 | 15.3 | | | |
| Revenue (Rsmn) | 80,245 | 97,140 | 1,14,576 | 79,900 | 95,678 | 1,11,856 | 0.4 | 1.5 | 2.4 |
| EBIT (Rsmn) | 9,307 | 11,940 | 14,710 | 9,234 | 11,939 | 14,650 | 0.8 | 0.0 | 0.4 |
| EBIT Margin (%) | 11.6 | 12.3 | 12.8 | 11.6 | 12.5 | 13.1 | | | |
| PAT (Rsmn) | 6,335 | 8,612 | 11,047 | 6,374 | 8,623 | 10,968 | (0.6) | (0.1) | 0.7 |
| FDEPS (Rs) | 9.2 | 12.5 | 16.1 | 9.2 | 12.5 | 15.9 | 0.1 | (0.1) | 0.8 |

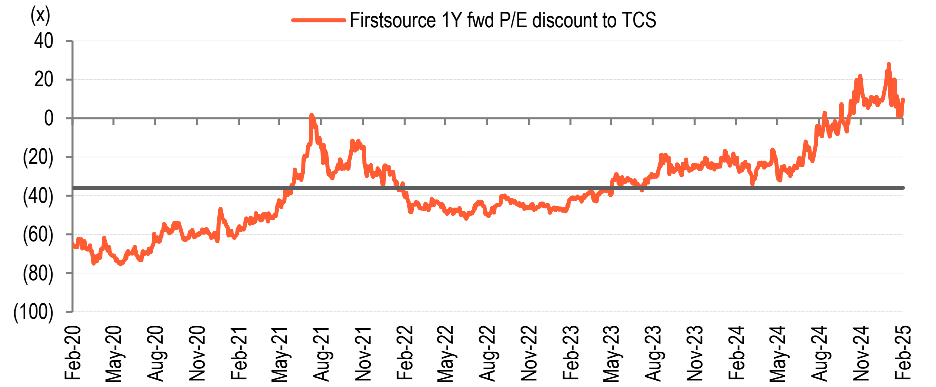
Source: Company, BOBCAPS Research

### Fig 3 – 5 Year PE trend




Source: Company, BOBCAPS Research

### Fig 4 – Premium/ Discount to TCS



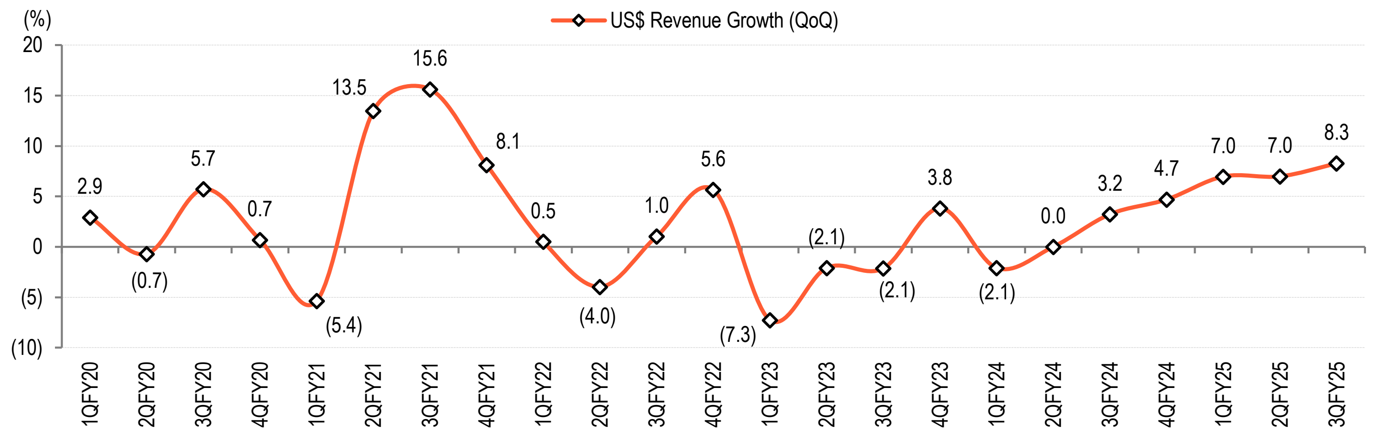

Source: Company, BOBCAPS Research

### Fig 5 – P&L at a glance

| Y/E March (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|---|---|---|
| **Average INR/USD** | **69.2** | **70.0** | **73.5** | **73.8** | **79.7** | **82.8** | **84.4** | **87.3** | **89.3** |
| **Net Sales (USD mn)** | **547** | **578** | **686** | **795** | **751** | **765** | **950** | **1,113** | **1,283** |
| **-Growth (%)** | | **5.7** | **18.7** | **15.9** | **(5.5)** | **1.9** | **24.2** | **17.1** | **15.3** |
| Net Sales | 38,262 | 40,987 | 50,779 | 59,212 | 60,222 | 63,363 | 80,245 | 97,140 | 1,14,576 |
| -Growth (%) | 8.2 | 7.1 | 23.9 | 16.6 | 1.7 | 5.2 | 26.6 | 21.1 | 17.9 |
| Cost of Sales & Services | 32,908 | 34,698 | 42,790 | 49,614 | 51,958 | 53,797 | 67,742 | 80,330 | 92,525 |
| EBITDA Margin | 5,354 | 6,289 | 7,989 | 9,598 | 8,264 | 9,566 | 12,503 | 16,810 | 22,051 |
| % of sales | 14.0 | 15.3 | 15.7 | 16.2 | 13.7 | 15.1 | 15.6 | 17.3 | 19.2 |
| Depreciation | 745 | 1,852 | 2,064 | 2,495 | 2,631 | 2,603 | 3,197 | 4,870 | 7,342 |
| **EBIT** | **4609** | **4437** | **5925** | **7103** | **5633** | **6963** | **9307** | **11940** | **14710** |
| **EBIT Margin (%)** | **12.0** | **10.8** | **11.7** | **12.0** | **9.4** | **11.0** | **11.6** | **12.3** | **12.8** |
| Interest Expense | 225 | 513 | 496 | 604 | 732 | 1,034 | 1,357 | 1,477 | 1,512 |
| Other income (net) | (26) | 17 | (13) | (30) | 1,251 | 368 | (37) | 320 | 634 |
| PBT | 4,358 | 3,941 | 5,416 | 6,469 | 6,152 | 6,297 | 7,913 | 10,783 | 13,832 |
| -PBT margin (%) | 11.4 | 9.6 | 10.7 | 10.9 | 10.2 | 9.9 | 9.9 | 11.1 | 12.1 |
| Provision for tax | 581 | 544 | 701 | 1,097 | 1,015 | 1,150 | 1,578 | 2,171 | 2,785 |
| Effective tax rate (%) | 13.3 | 13.8 | 16.2 | 17.0 | 16.5 | 18.3 | 19.7 | 20.1 | 20.1 |
| **Net profit** | **3,777** | **3,397** | **4,715** | **5,372** | **5,137** | **5,147** | **6,335** | **8,612** | **11,047** |
| **-Growth (%)** | **15.6** | **(10.1)** | **38.8** | **13.9** | **(4.4)** | **0.2** | **23.1** | **35.9** | **28.3** |
| **-Net profit margin (%)** | **9.9** | **8.3** | **9.3** | **9.1** | **8.5** | **8.1** | **7.9** | **8.9** | **9.6** |
| Average Shares outstanding- Basic | 692 | 699 | 706 | 704 | 700 | 689 | 687 | 688 | 688 |

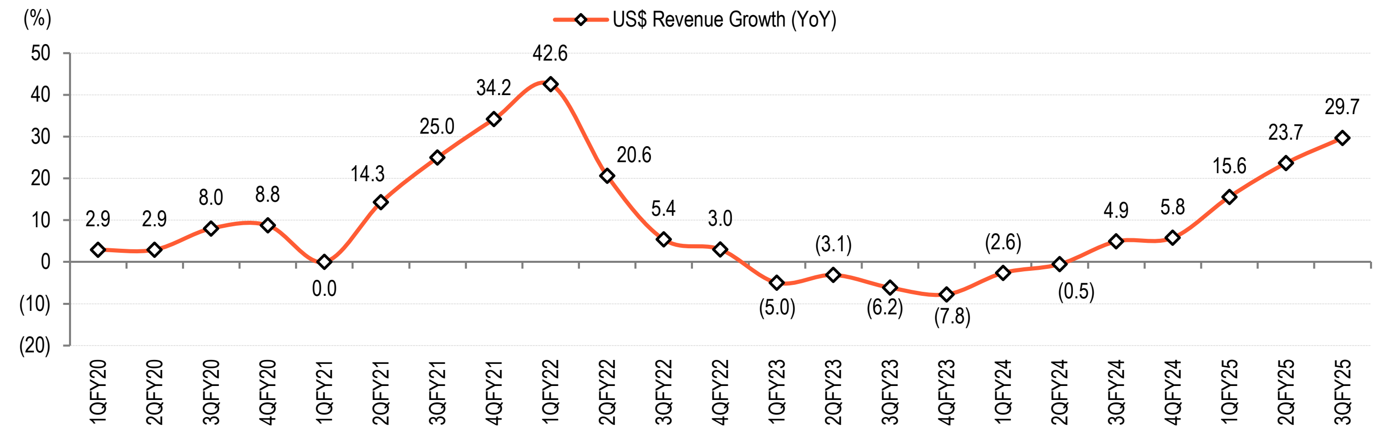
Source: Company, BOBCAPS Research

### Fig 6 – QoQ US$ Revenue Growth



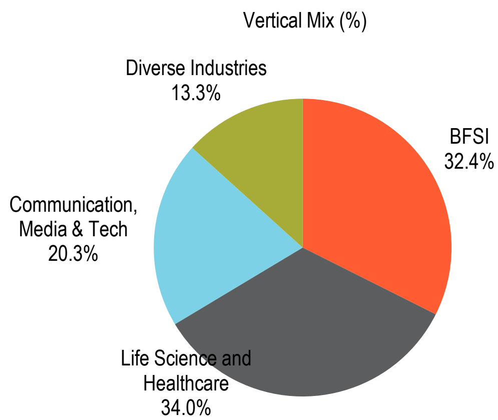

Source: Company, BOBCAPS Research

### Fig 7 – YoY US$ Revenue Growth



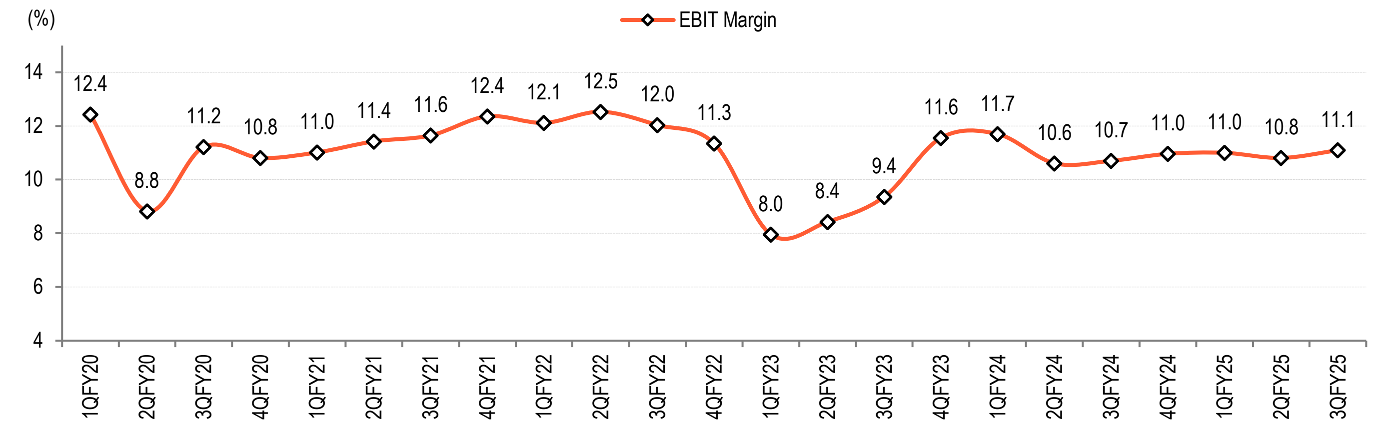

Source: Company, BOBCAPS Research

### Fig 8 – 3QFY25 Vertical Revenue Mix



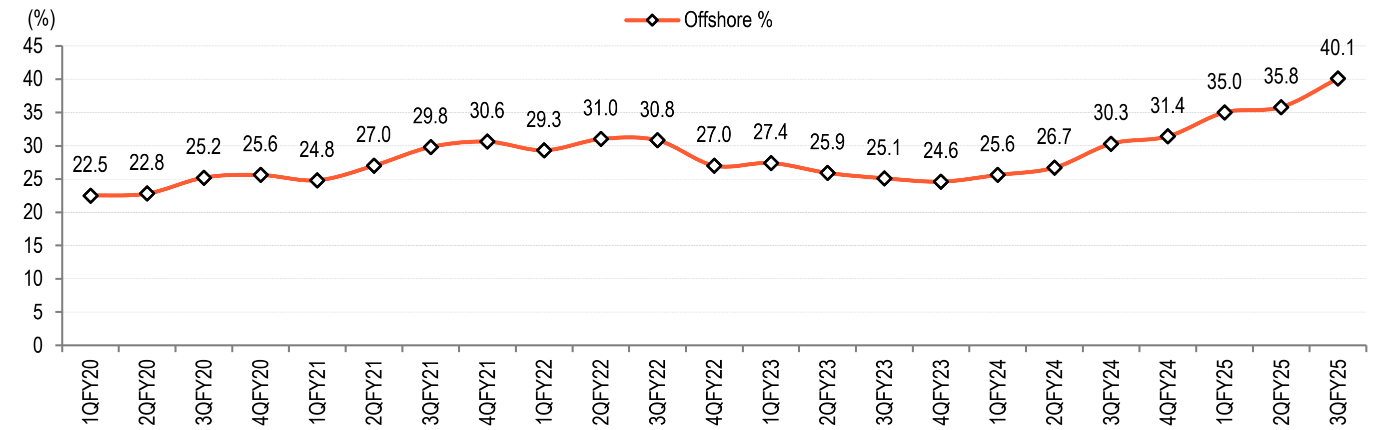

Source: Company, BOBCAPS Research

### Fig 9 – EBIT Margin trend



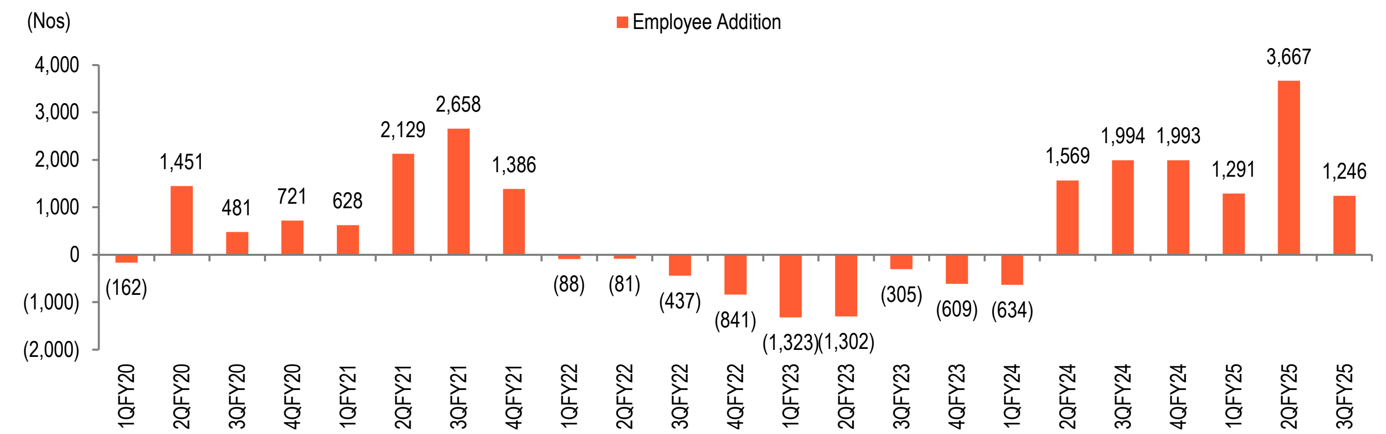

Source: Company, BOBCAPS Research

### Fig 10 – Revenue by Delivery – Offshore trend (%)



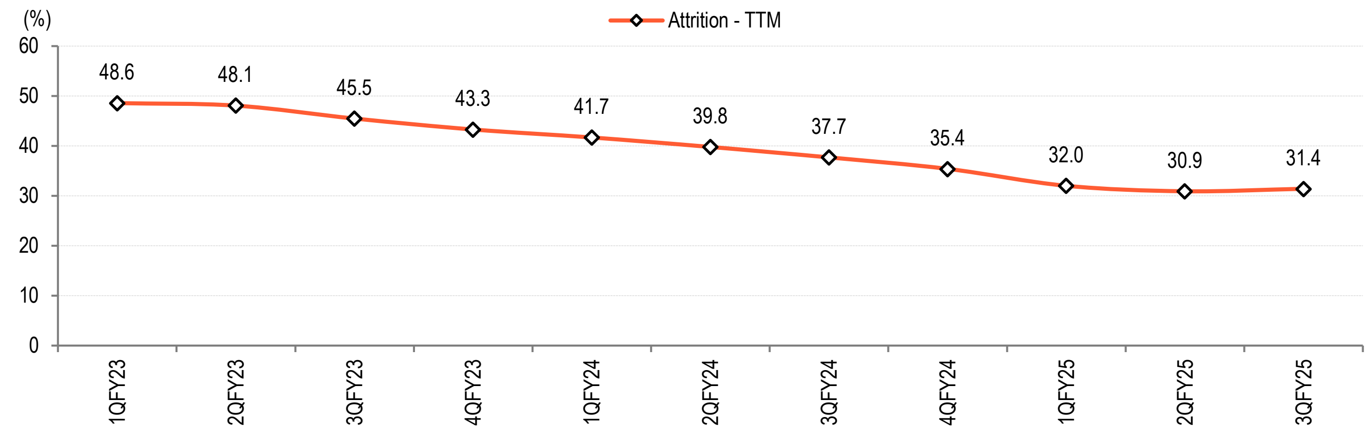

Source: Company, BOBCAPS Research

### Fig 11 – Net Employee Addition




Source: Company, BOBCAPS Research

### Fig 12 – TTM Attrition Rate




Source: Company, BOBCAPS Research

### Fig 13 – Quarterly Snapshot

| Year to 31 March | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| INR/USD | 76.0 | 78.8 | 82.1 | 81.9 | 82.1 | 82.9 | 83.1 | 83.0 | 83.4 | 83.8 | 84.4 |
| **Revenue (in USD mn)** | **191** | **187** | **183** | **190** | **186** | **186** | **192** | **201** | **215** | **230** | **249** |
| **(Rs mn)** | | | | | | | | | | | |
| Revenue | 14,723 | 14,882 | 15,049 | 15,568 | 15,292 | 15,400 | 15,966 | 16,705 | 17,911 | 19,254 | 21,024 |
| EBITDA | 1,810 | 1,917 | 2,096 | 2,441 | 2,402 | 2,288 | 2,372 | 2,504 | 2,699 | 2,873 | 3,177 |
| EBIT | 1,171 | 1,254 | 1,409 | 1,799 | 1,789 | 1,634 | 1,709 | 1,831 | 1,970 | 2,081 | 2,333 |
| Other income | 54 | 482 | 610 | 105 | 6 | 153 | 134 | 75 | (11) | (40) | (39) |
| PBT | 1,048 | 1,549 | 1,836 | 1,719 | 1,552 | 1,543 | 1,608 | 1,594 | 1,673 | 1,711 | 2,007 |
| Tax | 197 | 255 | 257 | 306 | 293 | 278 | 321 | 258 | 320 | 328 | 404 |
| PAT | 851 | 1,294 | 1,579 | 1,413 | 1,259 | 1,265 | 1,287 | 1,336 | 1,353 | 1,383 | 1,603 |
| Number of shares | 703.3 | 703.3 | 701.8 | 699.5 | 699.4 | 702.8 | 699.2 | 703.2 | 704.7 | 705.6 | 706.0 |
| EPS | 1.2 | 1.8 | 2.3 | 2.0 | 1.8 | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.3 |
| **YoY Growth (%)** | | | | | | | | | | | |
| USD Revenue | (5.0) | (3.1) | (6.2) | (7.8) | (2.6) | (0.5) | 4.9 | 5.8 | 15.6 | 23.7 | 29.7 |
| INR Revenues | (0.8) | 4.2 | 2.8 | 0.8 | 3.9 | 3.5 | 6.1 | 7.3 | 17.1 | 25.0 | 31.7 |
| EBITDA | (24.0) | (19.7) | (11.9) | (0.3) | 32.7 | 19.4 | 13.1 | 2.6 | 12.4 | 25.6 | 33.9 |
| EBIT | (34.9) | (29.9) | (20.0) | 2.7 | 52.8 | 30.3 | 21.3 | 1.8 | 10.1 | 27.4 | 36.5 |
| Net profit | (36.7) | (4.1) | 16.5 | 6.7 | 47.9 | (2.2) | (18.5) | (5.4) | 7.5 | 9.3 | 24.6 |
| **QoQ Growth (%)** | | | | | | | | | | | |
| USD Revenues | (7.28) | (2.1) | (2.1) | 3.83 | (2.11) | - | 3.23 | 4.69 | 6.97 | 6.98 | 8.26 |
| INR Revenues | (4.6) | 1.1 | 1.1 | 3.4 | (1.8) | 0.7 | 3.7 | 4.6 | 7.2 | 7.5 | 9.2 |
| EBITDA | (26.1) | 5.9 | 9.3 | 16.5 | (1.6) | (4.7) | 3.7 | 5.6 | 7.8 | 6.4 | 10.6 |
| EBIT | (33.2) | 7.1 | 12.4 | 27.7 | (0.6) | (8.7) | 4.6 | 7.2 | 7.6 | 5.6 | 12.1 |
| Net profit | (35.7) | 52.1 | 22.0 | (10.5) | (10.9) | 0.5 | 1.7 | 3.8 | 1.3 | 2.2 | 15.9 |
| **Margins (%)** | | | | | | | | | | | |
| EBITDA | 12.3 | 12.9 | 13.9 | 15.7 | 15.7 | 14.9 | 14.9 | 15.0 | 15.1 | 14.9 | 15.1 |
| EBIT | 8.0 | 8.4 | 9.4 | 11.6 | 11.7 | 10.6 | 10.7 | 11.0 | 11.0 | 10.8 | 11.1 |
| PAT | 5.8 | 8.7 | 10.5 | 9.1 | 8.2 | 8.2 | 8.1 | 8.0 | 7.6 | 7.2 | 7.6 |
| SGA | 4.3 | 4.5 | 4.6 | 4.1 | 4.0 | 4.2 | 4.2 | 4.0 | 4.1 | 4.1 | 4.0 |

Source: Company, BOBCAPS Research

### Fig 14 – Key Metrics

| | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 21,024 |
| EBITDA | 1,810 | 1,917 | 2,096 | 2,441 | 2,402 | 2,288 | 2,372 | 2,504 | 2,699 | 2,873 | 3,177 |
| EBIT | 1,171 | 1,254 | 1,409 | 1,799 | 1,789 | 1,634 | 1,709 | 1,831 | 1,970 | 2,081 | 2,333 |
| PAT | 851 | 1,294 | 1,579 | 1,413 | 1,259 | 1,265 | 1,287 | 1,336 | 1,353 | 1,383 | 1,603 |
| **Vertical Mix (%)** | | | | | | | | | | | |
| BFSI | 46.3 | 43.4 | 41.8 | 40.3 | 40.8 | 40.8 | 38.3 | 37.3 | 36.4 | 34.4 | 32.4 |
| Life Science and Healthcare | 32.1 | 34.5 | 34.2 | 33.2 | 32.6 | 32.7 | 33.5 | 32.9 | 35.7 | 36.3 | 34.0 |
| Communication, Media & Tech | 20.2 | 20.2 | 21.6 | 22.3 | 21.8 | 21.2 | 22.5 | 23.6 | 22.3 | 21.3 | 20.3 |
| Diverse Industries | 1.4 | 1.9 | 2.4 | 4.2 | 4.8 | 5.3 | 5.7 | 6.2 | 5.6 | 8.0 | 13.3 |
| **Geographic Mix (%)** | | | | | | | | | | | |
| North America | 68.4 | 67.2 | 64.9 | 63.3 | 63.5 | 65.1 | 65.4 | 65.0 | 68.2 | 68.5 | 66.3 |
| 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 | 33.6 |
| ROW | 1.5 | 1.5 | 1.0 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| **Delivery (%)** | | | | | | | | | | | |
| Offshore | 27.4 | 25.9 | 25.1 | 24.6 | 25.6 | 26.7 | 30.3 | 31.4 | 35 | 35.8 | 40.1 |
| Onsite | 72.6 | 74.1 | 74.9 | 75.4 | 74.4 | 73.3 | 69.7 | 68.6 | 65 | 64.2 | 59.9 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Clients Concentration (%)** | | | | | | | | | | | |
| Top 10 Client | | | | | | | | | 51.5 | 48.6 | 43.5 |
| Top 5 Client | 36.4 | 36.6 | 38.5 | 37.4 | 37.2 | 35 | 35.8 | 36.7 | 34.6 | 32.5 | 29.2 |
| Employee Number | 25,234 | 23,932 | 23,627 | 23,018 | 22,384 | 23,953 | 25,947 | 27,940 | 29,231 | 32,898 | 34,144 |
| Net Addition | (1,323) | (1,302) | (305) | (609) | (634) | 1,569 | 1,994 | 1,993 | 1,291 | 3,667 | 1,246 |
| **(US$ mn)** | | | | | | | | | | | |
| Revenue | 191 | 187 | 183 | 190 | 186 | 186 | 192 | 201 | 215 | 230 | 249 |
| EBIT | 15 | 16 | 17 | 22 | 22 | 20 | 21 | 22 | 24 | 25 | 28 |
| PAT | 11 | 16 | 19 | 17 | 15 | 15 | 15 | 16 | 16 | 17 | 19 |
| **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 | 29,171 |
| EBIT | 2,441 | 2,660 | 2,904 | 3,816 | 3,895 | 3,292 | 3,171 | 3,156 | 3,231 | 3,020 | 3,238 |
| PAT | 1,774 | 2,745 | 3,254 | 2,997 | 2,741 | 2,549 | 2,388 | 2,303 | 2,219 | 2,007 | 2,224 |

Source: Company, BOBCAPS Research

### Fig 15 – QoQ and YoY growth across various parameters

| (in US$) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **QoQ Growth (%)** | | | | | | | | | | | |
| Revenue | (7.3) | (2.1) | (2.1) | 3.8 | (2.1) | 0.0 | 3.2 | 4.7 | 7.0 | 7.0 | 8.3 |
| Geographical Data | | | | | | | | | | | |
| North America | (10.3) | (3.8) | (5.5) | 1.3 | (1.8) | 2.5 | 3.7 | 4.0 | 12.2 | 7.4 | 4.8 |
| 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 | 15.8 |
| ROW | (22.7) | (2.1) | (34.8) | (58.5) | (75.5) | 0.0 | 3.2 | 4.7 | NA | NA | 8.3 |
| **Verticals** | | | | | | | | | | | |
| BFSI | (12.4) | (8.2) | (5.7) | 0.1 | (0.9) | 0.0 | (3.1) | 2.0 | 4.4 | 1.1 | 2.0 |
| Life Science and Healthcare | (1.8) | 5.2 | (3.0) | 0.8 | (3.9) | 0.3 | 5.8 | 2.8 | 16.1 | 8.8 | 1.4 |
| Communication, Media & Tech | (1.4) | (2.1) | 4.6 | 7.2 | (4.3) | (2.8) | 9.6 | 9.8 | 1.1 | 2.2 | 3.2 |
| Diverse Industries | (23.6) | 32.9 | 23.6 | 81.7 | 11.9 | 10.4 | 11.0 | 13.9 | (3.4) | 52.8 | 80.0 |
| **Delivery** | | | | | | | | | | | |
| Offshore | (5.9) | (7.5) | (5.2) | 1.8 | 1.9 | 4.3 | 17.1 | 8.5 | 19.2 | 9.4 | 21.3 |
| Onshore | (7.8) | (0.1) | (1.1) | 4.5 | (3.4) | (1.5) | (1.8) | 3.0 | 1.4 | 5.7 | 1.0 |
| **YoY Growth (%)** | | | | | | | | | | | |
| Revenue | (5.0) | (3.1) | (6.2) | (7.8) | (2.6) | (0.5) | 4.9 | 5.8 | 15.6 | 23.7 | 29.7 |
| Geographical Data | | | | | | | | | | | |
| North America | (3.9) | (4.8) | (12.7) | (17.4) | (9.6) | (3.6) | 5.7 | 8.6 | 24.1 | 30.1 | 31.5 |
| 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 | 26.3 |
| ROW | 9.6 | (3.1) | (44.8) | (79.5) | (93.5) | (93.4) | (89.5) | (73.6) | NA | 23.7 | 29.7 |
| **Verticals** | | | | | | | | | | | |
| BFSI | (14.9) | (14.0) | (18.8) | (24.1) | (14.2) | (6.5) | (3.9) | (2.1) | 3.1 | 4.3 | 9.7 |
| Life Science and Healthcare | 14.2 | 12.9 | 5.9 | 1.1 | (1.1) | (5.7) | 2.8 | 4.8 | 26.6 | 37.3 | 31.6 |
| Communication, Media & Tech | (2.1) | 0.4 | 3.4 | 8.3 | 5.1 | 4.4 | 9.3 | 12.0 | 18.2 | 24.2 | 17.0 |
| Diverse Industries | (33.5) | (8.0) | 25.1 | 127.9 | 233.9 | 177.5 | 149.2 | 56.2 | 34.9 | 86.7 | 202.6 |
| **Delivery** | | | | | | | | | | | |
| Offshore | (11.1) | (19.0) | (23.5) | (16.0) | (9.0) | 2.5 | 26.7 | 35.0 | 58.0 | 65.8 | 71.6 |
| Onshore | (2) | 4 | 2 | (5) | (0) | (2) | (2) | (4) | 1 | 8 | 11 |

Source: Company, BOBCAPS Research

## Financials

### Income Statement

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Total revenue** | **60,222** | **63,363** | **80,245** | **97,140** | **1,14,576** |
| EBITDA | 8,264 | 9,566 | 12,503 | 16,810 | 22,051 |
| Depreciation | 2,631 | 2,603 | 3,197 | 4,870 | 7,342 |
| EBIT | 5,633 | 6,963 | 9,307 | 11,940 | 14,710 |
| Net interest inc./(exp.) | (732) | (1,034) | (1,357) | (1,477) | (1,512) |
| Other inc./(exp.) | 1,251 | 368 | (37) | 320 | 634 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 6,152 | 6,297 | 7,913 | 10,783 | 13,832 |
| Income taxes | 1,015 | 1,150 | 1,578 | 2,171 | 2,785 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| **Reported net profit** | **5,137** | **5,147** | **6,335** | **8,612** | **11,047** |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| **Adjusted net profit** | **5,137** | **5,147** | **6,335** | **8,612** | **11,047** |

### Balance Sheet

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Accounts payables | 2,314 | 3,056 | 3,797 | 4,393 | 5,206 |
| Other current liabilities | 13,282 | 13,353 | 17,469 | 17,752 | 18,139 |
| Provisions | 137 | 188 | 275 | 275 | 275 |
| Debt funds | 1,394 | 42 | 3,235 | 2,235 | 1,235 |
| Other liabilities | 5,848 | 7,188 | 8,805 | 9,673 | 10,862 |
| Equity capital | 6,970 | 6,970 | 6,970 | 6,970 | 6,970 |
| Reserves & surplus | 26,699 | 30,034 | 37,443 | 41,929 | 47,129 |
| Shareholders' fund | 33,668 | 37,004 | 44,413 | 48,899 | 54,099 |
| **Total liab. and equities** | **56,644** | **60,830** | **77,994** | **83,227** | **89,816** |
| Cash and cash eq. | 1,556 | 1,884 | 2,558 | 2,869 | 3,251 |
| Accounts receivables | 10,385 | 11,608 | 16,236 | 18,788 | 22,261 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 2,142 | 1,881 | 3,376 | 3,376 | 3,376 |
| Investments | 116 | 115 | 115 | 115 | 115 |
| Net fixed assets | 1,739 | 1,641 | 2,110 | 3,493 | 4,875 |
| CWIP | 34 | 171 | 735 | 735 | 735 |
| Intangible assets | 35,423 | 36,889 | 45,974 | 46,961 | 48,313 |
| Deferred tax assets, net | 3,735 | 3,729 | 3,632 | 3,632 | 3,632 |
| Other assets | 1,514 | 2,911 | 3,258 | 3,258 | 3,258 |
| **Total assets** | **56,644** | **60,830** | **77,994** | **83,227** | **89,816** |

### Cash Flows

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Cash flow from operations** | **8,574** | **5,886** | **9,497** | **13,287** | **17,627** |
| Capital expenditures | 409 | 126 | (1,063) | (3,056) | (3,853) |
| Change in investments | 589 | 296 | (474) | 0 | 0 |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| **Cash flow from investing** | **998** | **422** | **(1,537)** | **(3,056)** | **(3,853)** |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | (1,827) | (147) | 4,329 | (1,000) | (1,000) |
| Interest expenses | (732) | (1,034) | (1,357) | (1,477) | (1,512) |
| Dividends paid | (2,456) | (2,393) | (2,751) | (4,127) | (5,846) |
| Other financing cash flows | 0 | 0 | 0 | 0 | 0 |
| **Cash flow from financing** | **(5,015)** | **(3,574)** | **221** | **(6,604)** | **(8,358)** |
| **Chg in cash & cash eq.** | **657** | **329** | **673** | **311** | **382** |
| **Closing cash & cash eq.** | **1,556** | **1,884** | **2,558** | **2,869** | **3,251** |

### Per Share

| Y/E 31 Mar (Rs) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Reported EPS | 7.3 | 7.5 | 9.3 | 12.5 | 16.1 |
| Adjusted EPS | 7.3 | 7.3 | 9.2 | 12.5 | 16.1 |
| Dividend per share | 3.5 | 3.5 | 4.0 | 6.0 | 8.5 |
| Book value per share | 48.1 | 53.7 | 64.7 | 71.1 | 78.7 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| EV/Sales | 4.1 | 3.9 | 3.0 | 2.5 | 2.1 |
| EV/EBITDA | 29.6 | 25.6 | 19.4 | 14.5 | 11.1 |
| Adjusted P/E | 48.4 | 48.3 | 38.6 | 28.3 | 22.1 |
| P/BV | 7.4 | 6.6 | 5.5 | 5.0 | 4.5 |

### DuPont Analysis

| Y/E 31 Mar (%) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Tax burden (Net profit/PBT) | 83.5 | 81.7 | 80.3 | 79.9 | 79.9 |
| Interest burden (PBT/EBIT) | 109.2 | 90.4 | 86.0 | 90.3 | 94.0 |
| EBIT margin (EBIT/Revenue) | 9.4 | 11.0 | 11.6 | 12.3 | 12.8 |
| Asset turnover (Rev./Avg TA) | 105.9 | 107.9 | 115.6 | 120.5 | 132.4 |
| Leverage (Avg TA/Avg Equity) | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Adjusted ROAE | 15.3 | 13.9 | 14.5 | 17.6 | 20.4 |

### Ratio Analysis

| Y/E 31 Mar | FY23A | FY24A | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **YoY growth (%)** | | | | | |
| Revenue | 1.7 | 5.2 | 26.6 | 21.1 | 17.9 |
| EBITDA | (13.9) | 15.8 | 30.7 | 34.4 | 31.2 |
| Adjusted EPS | (4.6) | 0.3 | 25.1 | 36.4 | 28.3 |
| **Profitability & Return ratios (%)** | | | | | |
| EBITDA margin | 13.7 | 15.1 | 15.6 | 17.3 | 19.2 |
| EBIT margin | 9.4 | 11.0 | 11.6 | 12.3 | 12.8 |
| Adjusted profit margin | 8.5 | 8.1 | 7.9 | 8.9 | 9.6 |
| Adjusted ROAE | 16.1 | 14.6 | 15.6 | 18.5 | 21.5 |
| ROCE | 8.6 | 10.2 | 11.3 | 12.5 | 14.4 |
| **Working capital days (days)** | | | | | |
| Receivables | 63 | 67 | 74 | 71 | 71 |
| Inventory | NA | NA | NA | NA | NA |
| Payables | 14 | 17 | 17 | 16 | 16 |
| **Ratios (x)** | | | | | |
| Gross asset turnover | 34.6 | 38.6 | 38.0 | 27.8 | 23.5 |
| Current ratio | 0.9 | 0.9 | 1.0 | 1.1 | 1.2 |
| Net interest coverage ratio | NA | NA | NA | NA | NA |
| Adjusted debt/equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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Brand Name: **BOBCAPS**
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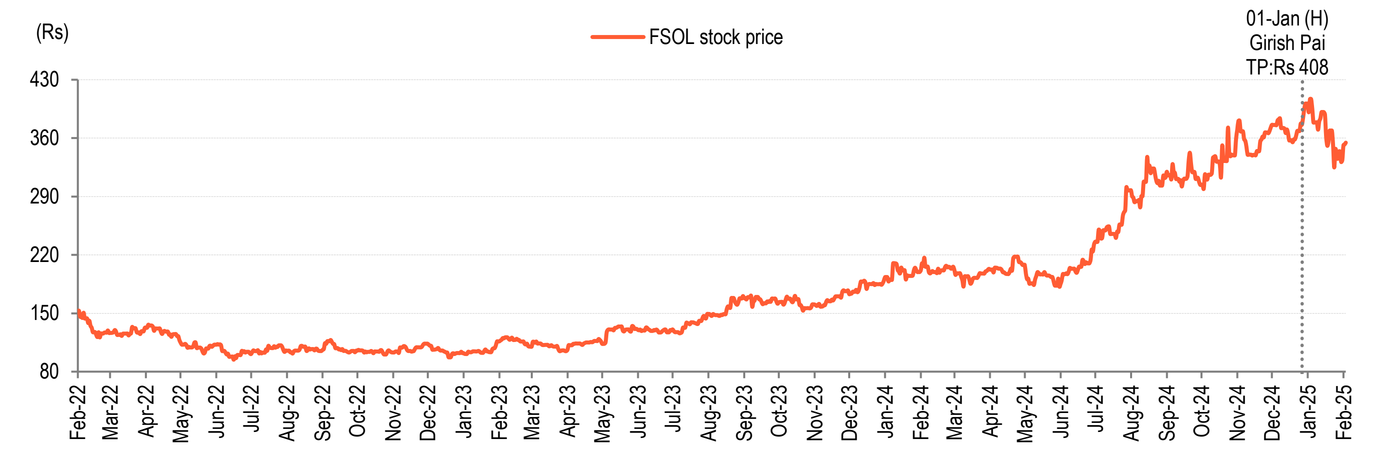


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