

Shubh Nivesh



CMP: ₹ 245

Target: ₹ 300 (22%) Target Period: 6-12 months

BUY

July 22, 2024

Healthy Growth outlook ahead...

About the stock: Firstsource Solutions (FSL) provides business process services to BFSI, communication, media, tech and healthcare.

- The company generates ~65% revenues from the US and 35% from the UK
- FSL is a domain driven BPM services company which has 150+ global clients, including 18 Fortune 500 companies and 3 FTSE 100 companies. It has 27,940 employees across the US, UK, India and Philippines.

Investment Rationale:

- Strong Growth momentum:** FSL exuded confidence in continued growth, fuelled by robust client relationships, market leadership, and strategic investments. FSL aims to achieve a US\$ 1 billion exit revenue run-rate by FY26 organically and it guided on expected revenue growth in CC terms is in the range of 10-13% for FY25. We have baked in 12.1% CAGR in revenues over FY24-26E to US\$ 961 mn.
- Margins to expand in medium term:** The company guided for EBIT margin in the range of 11-12% for FY25. Further, margin expansion is expected over the medium term through various strategies including onsite-offshore shift, optimization of sourcing and staffing, technology adoption, and automation. We have baked EBIT margins of 11.6% and 12.1% in FY25 and FY26, respectively vs. 11% in FY24. Healthy revenue growth coupled in margins expansion to drive ~20% earnings CAGR over FY24-26E.
- Acquisition of QBSS to boost growth:** FSL announced acquisition of Quintessence Business Solutions & Services (QBSS) - 100% stake at a purchase consideration of US\$ 39.25mn. QBSS reported revenue of US\$ 14.6 mn in FY24, exhibiting a CAGR of 23% over two years. The acquisition is expected to enhance presence in revenue cycle management (market size of US\$ 25 bn growing at double digits) and to grow offshore capabilities. The company aims to gain share in this market from the traditional RCM players, taking a tech led offshore centric approach and its acquisition of QBSS is in line with that strategy. The acquisition, which was closed in May, 2024, will be both margin & EPS accretive for FSL.

Rating and Target Price

- FSL is well placed to sustain its medium and long-term growth momentum driven by client acquisition, portfolio expansion, and margin enhancement initiatives.
- We assign **BUY**, with a target price of ₹300; at **28x P/E on FY26E EPS**.

Key Financial Summary

| ₹ crore | FY22 | FY23 | FY24 | 5 year CAGR (FY19-24) | FY25E | FY26E | 2 year CAGR (FY24-26E) |
|--------------------|-------|-------|-------|-----------------------|-------|-------|------------------------|
| Net Sales | 5,921 | 6,022 | 6,336 | 10.6% | 7,171 | 8,118 | 13.2% |
| EBITDA | 960 | 827 | 956 | 12.3% | 1,121 | 1,309 | 17.0% |
| EBITDA Margins (%) | 16.2 | 13.7 | 15.1 | | 15.6 | 16.1 | |
| Net Profit | 537 | 514 | 515 | 6.4% | 605 | 746 | 20.4% |
| EPS (₹) | 7.6 | 7.3 | 7.3 | | 8.6 | 10.6 | |
| P/E | 31.0 | 32.5 | 32.4 | | 27.6 | 22.4 | |
| RoNW (%) | 17.7 | 15.3 | 13.9 | | 15.1 | 16.9 | |
| RoCE (%) | 14.5 | 14.5 | 14.0 | | 15.2 | 17.4 | |

Source: Company, ICICI Direct Research



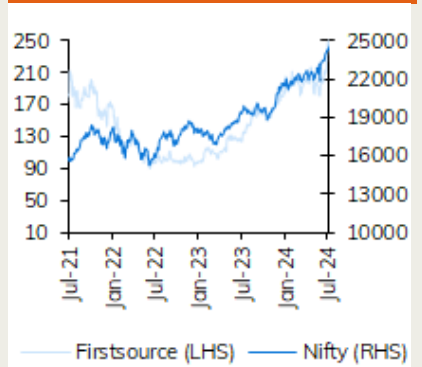
Particulars

| Particular | Amount |
|----------------------|-----------|
| Market Cap (₹ Crore) | 16,669.9 |
| Total Debt (₹ Crore) | 812.3 |
| Cash (₹ Crore) | 218.5 |
| EV (₹ Crore) | 17,263.7 |
| 52 week H/L | 258 / 125 |
| Equity capital | 697.0 |
| Face value | 10.0 |

Shareholding pattern

| | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
|-----------|--------|--------|--------|--------|
| Promoters | 53.7 | 53.7 | 53.7 | 53.7 |
| FII | 10.2 | 9.9 | 9.6 | 9.4 |
| DII | 16.2 | 18.2 | 19.3 | 19.5 |
| Other | 19.9 | 18.3 | 17.5 | 17.5 |

Price Chart



Key risks

- Delay in interest rate cut in US, impacting the mortgage business;
- Lower than expected margin growth

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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