

CMP: INR 353

Rating: Accumulate

Target Price: INR 402

Stock Info

BSE	532809
NSE	FSL
Bloomberg	FSOL:IN
Reuters	FISO.BO
Sector	IT Enabled Services
Face Value (INR)	10
Equity Capital (INR Cr)	697
Mkt Cap (INR Cr)	24,806
52w H/L (INR)	423/270

Shareholding Pattern %

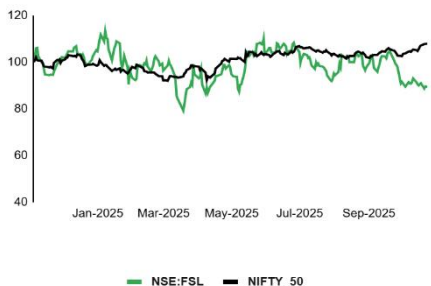
(As on Mar, 2025)

Promoters	53.66
Public & Others	44.11

Stock Performance (%)

	1m	3m	12m
FSL	6.73	3.3	-8.70
Nifty	2.4	3.9	7.1

FSL Vs Nifty



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Firstsource Solutions Ltd (FSOL) in Q2FY26, FY26 constant currency revenue growth guidance maintained to 13-15% (Does not include the proposed acquisition of Pastdue Credit Solutions) and EBIT Margin 11.25-12%. The company reported revenue at INR 2,312 Cr (USD 265 mn in-line the estimate of USD 264 Mn), y/y growth of 2.6% QoQ/+23.8% YoY in INR term above our estimate of INR 2,297 Cr. Constant currency growth of 2.0%QoQ/13.8% YoY. EBIT Margin at INR 266.5 Cr in-line with our estimate of INR 263 Cr. Margin at 11.5 % in line with our estimate of 11.5% PAT at INR 179.5 Cr slightly below with our estimate of INR 183 Cr. EPS of INR 2.6 against INR 2.45 in Q1FY26. Total headcount of 35,997 employees up by 1502 QoQ. TTM employee attrition at 28.0% down by 90bps. Onshore down by 40bps to 58.4%.

Consistent Growth with Strong Deal Momentum: The company delivered its sixth consecutive quarter of double-digit revenue growth (+20.1% YoY) and the seventh straight quarter of sequential expansion, backed by four large deal wins and 10 new logos. The deal pipeline crossed \$1 bn for the first time, signaling sustained client traction. Growth was broad-based across BFS, healthcare, and CMT, supported by proactive diversification beyond top clients and expansion into new markets like the Middle East and Canada.

Margin Expansion Driven by Operational Efficiency and AI Integration: EBIT margin improved to 11.5%, marking the fourth straight quarter of expansion, despite annual wage hikes. This improvement stemmed from delivery optimization, right-sourcing talent, and early benefits from AI and automation initiatives. Management reiterated its 50–75 bps annual improvement target, with ongoing efforts to enhance productivity, rationalize costs, and unlock synergies from past acquisitions.

Strategic Shift Toward ‘UnBPO’ and Technology Arbitrage: The company’s UnBPO framework is reshaping its business model from labor arbitrage to technology-led transformation. Investments in Applied AI and Lyzr are enabling intelligent process redesign, autonomous agents, and outcome-based delivery models. This transition positions company to drive non-linear growth, improve revenue per employee, and strengthen competitiveness against traditional IT+BPO peers.

Outlook and valuation

The company reiterated its confidence in sustaining industry-leading growth, guiding 13–15% constant currency revenue growth and 11.25–12% EBIT margin for FY26. Growth is expected to accelerate in H2 as ramp-ups from large healthcare BPaaS and BFS deals materialize, supported by strong hiring momentum and a record \$1 bn deal pipeline. The company aims to deepen its UnBPO strategy to drive non-linear, tech-led transformation, expand into new geographies like the Middle East and Canada, and leverage AI partnerships (Applied AI, Lyzr) to enhance efficiency and differentiation. Margin tailwinds from automation, delivery optimization, and cost discipline are expected to sustain, positioning Firstsource for profitable, technology-driven growth in FY26 and beyond. We expect FSL Revenue/EBITDA/PAT to grow at a CAGR of 14.3%/16.5%/~17.5%, respectively, over FY26e-28e. **We value FSL at a PE of 26x to its FY28e EPS of INR 15.5, which yields a target price of INR 402 per share. We maintain our rating to an Accumulate on the stock.**

Exhibit 1 Financial Performance

Particular	FY25	FY26E	FY27E	FY28E
Sales	7,980	9,043	10,274	11,802
EBIT	881	1,054	1,229	1,422
EBIT Margin	11.0%	11.7%	12.0%	12.0%
Reported PAT	595	780	923	1,077
PE (x)	40.9	31.6	26.7	22.8
EPS	8.6	11.2	13.2	15.5

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Performance (Consolidated)

Consolidated (in INR Cr)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Revenue (Mn USD)	265	259	230	2.3%	15.2%
Net Revenue	2,312	2,218	1,925	4.3%	20.1%
Employee cost	1,362	1,321	1,210	3.1%	12.5%
Other Expenses	574	550	428	4.5%	34.3%
EBITDA	376	347	287	8.3%	30.9%
EBITDA margin %	16.3%	15.7%	14.9%	61bps	134bps
Depreciation	110	97	79	12.7%	38.4%
EBIT	266.5	249.8	208.1	6.7%	28.1%
EBIT margin %	11.5%	11.3%	10.8%	26bps	72bps
Other Income	-1	7	-3	-	-
Finance costs	43	43	34	-1.6%	24.5%
PBT	222.4	213.2	171.0	4.3%	30.1%
Exceptional item	-2	-	-		
PBT and share net profit	224.334	213.229	171.028	5.2%	31.2%
Tax Expense	45	44	33	2.1%	36.6%
Effective tax rate %	20.2%	20.6%	19.2%	-44bps	96bps
PAT	179.5	169.3	138.2	6.0%	29.9%
Non-controlling interest	-0	-0	-		
Consolidated PAT	179.5	169.3	138.211	6.0%	29.9%
PAT margin %	7.8%	7.6%	7.2%	13bps	59bps
EPS (INR)	2.60	2.45	2.01	6.1%	29.4%
Consolidated (in INR Cr)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Banking and Financial Services	768	722	664	6.3%	15.6%
Healthcare	777	742	703	4.7%	10.5%
Communication, Media and Technology	502	497	412	1.0%	21.9%
Diverse Industries	268	260	154	3.4%	74.0%

Source: Arianth Research, Company Filings

FSL-Q2FY26 Concall KTAs

Management reaffirmed its FY26 constant currency revenue growth guidance of 13–15%, supported by an accelerating growth trajectory in the second half, as several large deals ramp up across the healthcare and BFS verticals. The outlook excludes any contribution from the Pastdue Credit Solutions acquisition, which is still awaiting FCA approval and is expected to close in Q3FY26. EBIT margin guidance remains unchanged at 11.25–12%, with expectations of ending the year near the upper end of the range, driven by improved operating leverage, higher offshore mix, and continued productivity gains from automation. The company continues to target a 50–75 bps annual margin expansion through delivery optimization, portfolio mix improvement, and efficiency initiatives. Management reiterated its long-term focus on achieving peer-level profitability within the next three to four years. Healthy headcount additions and declining attrition underscore confidence in near-term demand momentum and strong visibility for upcoming deal ramp-ups

Growth momentum sustained despite global macro and geopolitical uncertainty.

Signed four large deals (ACV > USD 5 mn) in Q2FY26.

Notable wins included: a top UK retail bank (collections), top-10 US healthcare payer (digital intake), US loan self-service provider (first-party collections), and a UK media major (customer onboarding).

Added 10 new client logos, including 4 strategic logos with potential of >USD 5 mn annual revenue each.

Of 19 strategic logos added in the past four quarters, 13 have already scaled to USD 5 mn+ relationships.

Deal pipeline crossed USD 1 bn for the first time an all-time high.

Pipeline continues to grow 5–10% sequentially, indicating strong demand visibility.

- Over 50% of large-deal ACV in the last six quarters came from non-top-five clients, showing diversification.
- \$5 mn+ accounts now form 39% of revenue, up from 26% last year.
- Share of top 5 clients reduced by 6.2% and top 10 clients by 9% over eight quarters.
- Client concentration reduced even as top accounts continue to grow, signaling balanced expansion.
- BFSI vertical grew 4% QoQ and 11% YoY (CC) and added three new logos.
- BFSI growth driven by deeper presence in North America and AI-led transformation offerings in collections and mortgage services.
- Mortgage segment adopting a consulting-led, AI-driven cost optimization model to enhance efficiency.
- Healthcare vertical grew 6% YoY and 3% QoQ, with three new logos and strong ramp-up in payer deals.
- Healthcare pipeline up 2.5x YoY, supported by demand from new regulatory requirements.
- CMT (Communications, Media, Technology) grew 15% YoY, marginally down 1% QoQ due to transition-related shifts.
- CMT continues to gain traction in AI data training and model validation work for large consumer tech clients.
- Diverse Industries (utilities & retail) were flat QoQ, impacted by UK macro weakness but supported by a healthy medium-term pipeline.
- North America grew 3% QoQ and 16% YoY (CC); continues to lead overall growth.
- Europe (UK) remains muted due to high labor costs and weak demand, though most client transitions are completed.
- Company launched operations in Dubai to strengthen presence in the Middle East region.
- Australia continues to scale rapidly, supported by Monash University AI partnership for co-developing next-gen AI capabilities.
- Canada identified as a new growth market for near-term expansion.
- Headcount increased to 35,997, up by 1,500 QoQ, marking the highest addition in six quarters.
- 80% of new hires were in offshore/nearshore locations, improving cost structure.
- Attrition reduced to 28%, a 12ppt decline over eight quarters lowest in recent years.
- Operating profit (EBIT) stood at INR 2.7 bn, up 28% YoY and EBIT margin expanded despite wage hikes for 90% of staff.
- Strong cost control and automation offset inflationary impact, enabling margin improvement.
- Cash conversion remained robust – OCF/EBITDA at 82%, FCF/PAT at 155%.
- Net debt reduced to INR 10.8 bn (from INR 13.2 bn in March 2025) on healthy cash generation and repayments.
- Cash & investments stood at INR 2.9 bn as of Q2FY26.
- Exceptional item: INR 25 mn impairment of intangibles (acquisition-related) offset by INR 2.4 mn fair-value gain on contingent consideration.
- Tax rate stable at 20%, within guided range of 19–20% for FY26.
- Made strategic investments in Applied AI (workflow re-engineering) and Lyzr (agentic AI platform).
- Unveiled UnBPO strategy, replacing labor arbitrage with technology arbitrage to drive structural efficiency.
- Applied AI uses proprietary models to reimagine end-to-end workflows, particularly in mortgage and financial processes.
- Lyzr enables autonomous AI agents for document verification, credit analysis, compliance, and communication tasks.
- The UnBPO model aims to increase nonlinear revenue share and improve revenue per headcount over time.
- Company works with 4 of top 5 global consumer tech firms in data-as-a-service — including prompt creation, training data, and model validation.
- Gained 0.5% global BPO market share over last eight quarters versus 15 closest peers, reflecting competitive outperformance.

Operating Metrics	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Revenue by Vertical								
Banking & Financial Services	38.30%	37.30%	36.40%	34.40%	32.40%	33.40%	32.50%	33.20%
Healthcare	33.50%	32.90%	35.70%	36.30%	34.00%	33.80%	33.40%	33.50%
Communications Media & Tech	22.50%	23.60%	22.30%	21.30%	20.30%	21.00%	22.40%	21.70%
Diverse Industries	5.70%	6.20%	5.60%	8.00%	13.30%	11.80%	11.70%	11.60%
Revenue by Geography								
US	65.40%	65.00%	68.20%	68.50%	66.30%	67.70%	68.70%	69.40%
Europe, Middle East, and Africa	34.50%	34.90%	31.80%	31.40%	33.60%	31.50%	30.10%	29.40%
ROW	0.10%	0.10%	0.00%	0.10%	0.10%	0.80%	1.20%	1.20%
Revenue by Delivery								
Offshore	30.30%	31.40%	35.00%	35.80%	40.10%	37.80%	41.20%	41.60%
Onshore	69.70%	68.60%	65.00%	64.20%	59.90%	62.20%	58.80%	54.40%
Top Clients Revenue								
Top 5 clients (share of total revenues)	35.80%	36.70%	34.60%	32.50%	29.20%	29.30%	29.60%	28.90%
Top 10 clients (share of total revenues)	52.00%	52.60%	51.50%	48.60%	43.50%	43.70%	42.60%	42.30%
Other Metrics								
Total employees (end of period)	25947	27940	29231	32898	34144	34651	34495	35997
Net Addition	1994	1993	1291	3667	1246	507	-156	1502
Attrition (TTM)	37.70%	35.40%	32.00%	30.90%	31.40%	29.80%	28.90%	28.00%
Client Distribution								
US\$ 1m+ clients (nos.)	104	103	100	105	107	116	141	142
US\$ 5m+ clients (nos.)	25	25	25	26	28	30	38	39
US\$ 10m+ clients (nos.)	13	13	13	13	14	15	17	17
US\$ 20m+ clients (nos.)	8	8	9	11	10	10	11	9
US\$ 50m+ clients (nos.)	2	2	2	2	2	2	2	2
Revenue by Currency								
USD	64.90%	64.80%	67.90%	68.20%	64.90%	65.70%	67.90%	68.50%
GBP	34.40%	34.40%	31.40%	30.90%	34.20%	32.70%	30.10%	29.20%
Others	0.70%	0.80%	0.70%	0.90%	0.90%	1.60%	2.00%	2.30%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Cr)				
Year End-March	FY25	FY26E	FY27E	FY28E
Revenue USD term	944.0	1063.9	1210.1	1390.1
Change (%)	-2.9%	12.7%	13.7%	14.9%
Revenues	7,980	9,043	10,274	11,802
Change (%)	25.9%	13.3%	13.6%	14.9%
Employee costs	4,996	5,833	6,493	7,459
Other expenses	1,777	1,854	2,178	2,502
Total Expenses	6,773	7,687	8,671	9,961
EBITDA	1,208	1,356	1,603	1,841
EBIDTA Margin	15.13%	15.00%	15.60%	15.60%
Depreciation	327	302	374	420
EBIT	881	1054	1229	1422
EBIT Margin	11.03%	11.66%	11.96%	12.05%
Interest	148	102	101	99
Other Income	-1	-2	-3	-9
PBT	732	951	1,125	1,314
Exceptional Items	-8.81	-	-	-
PBT after exceptional Items	741	951	1,125	1,314
Tax	146	171	203	236
Rate (%)	19.7%	18.0%	18.0%	18.0%
PAT	594	780	923	1,077
Margin	7%	9%	9%	9%
Consolidated PAT	595	780	923	1,077
Change (%)	15.5%	31.1%	18.3%	16.8%

Cash Flow Statement (INR Cr)				
Year End-March	FY25	FY26E	FY27E	FY28E
PBT	741	951	1,125	1,314
Cash From Operating Activities	823	1,880	1,600	1,832
Tax	-122	171	203	236
Net Cash From Operations	701	1,709	1,397	1,596
Capex	-241	-300	-300	-300
Cash From Investing	-745	-400	-400	-400
Borrowings	858	-20	-10	-11
Finance cost paid	-158	-102	-101	-99
Cash From Financing	23	-274	-347	-347
Net Increase/ Decrease in Cash	-21	1035	650	849
Cash at the beginning of the year	175	155	1,192	1,843
Cash at the end of the year	155	1,192	1,843	2,694

Balance Sheet (INR Cr)				
Year End-March	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Share Capital	697	697	697	697
Reserves & Surplus	3,401	3,936	4,615	5,448
Non controlling interest	0	0	0	0
Total Equity	4,098	4,634	5,312	6,145
Loan Funds	1,533	849	839	828
Defered Tax Liability (Net)	165	165	165	165
Total Liability	7,922	7,724	8,415	9,260
Application of Funds				
Gross Block	1,286	1,586	1,886	2,186
Less: Depreciation	1,194	1,448	1,788	2,181
Net Block	92	138	99	5
CWIP	49	49	49	49
Financial Assets	2,121	2,621	3,272	4,123
Investments	62	62	62	62
Sundry debtors	1,686	1,161	1,161	1,161
Cash and bank	167	1,192	1,843	2,694
Other Current Assets	289	289	289	289
Total Current assets	2,224	2,724	3,375	4,226
Total Current liabilities	1,238	1,245	1,268	1,290
Total Non-Current assets	5,698	5,000	5,040	5,034
Capital Employed	7,922	7,724	8,415	9,260

Key Ratios				
Year End-March	FY25	FY26E	FY27E	FY28E
Per share (INR)				
EPS	8.6	11.2	13.2	15.5
BVPS	59	66	76	88
Valuation (x)				
P/E	40.9	31.6	26.7	22.8
P/BV	6.0	5.3	4.6	4.0
EV/EBITDA	21.5	17.9	14.7	12.4
Return ratio (%)				
EBIDTA Margin	15.1%	15.0%	15.6%	15.6%
EBIT Margin	11.0%	11.7%	12.0%	12.0%
PAT Margin	7.5%	8.6%	9.0%	9.1%
ROE	14.5%	16.8%	17.4%	17.5%
ROCE	11.1%	13.6%	14.6%	15.4%
Leverage Ratio (%)				
Total D/E	0.4	0.2	0.2	0.1
Turnover Ratios				
Asset Turnover (x)	3.6	3.3	3.0	2.8
Receivable Days	53	47	41	36
Payable days	16	16	14	12

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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