Q3FY26 - Result Update
4th Feb 2026

Firstsource Solutions Ltd

High-Growth Execution with Expanding Margins

CMP: INR 309

Rating: Accumulate

Target Price: INR 357

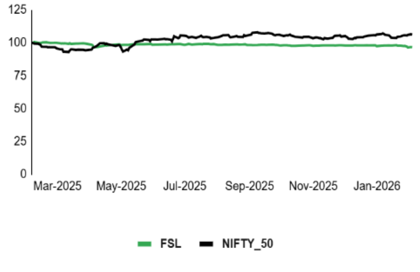
Stock Info	
BSE	532809
NSE	FSL
Bloomberg	FSOL:IN
Reuters	FISO.BO
Sector	IT Enabled Services
Face Value (INR)	10
Equity Capital (INR Cr)	697
Mkt Cap (INR Cr)	21,589
52w H/L (INR)	404/270

Shareholding Pattern %
(As on Dec, 2025)

Promoters	53.66
Public & Others	44.11

Stock Performance (%)	**1m**	**3m**	**12m**
FSL	-9.0	-12.5	-6.5
Nifty	-2.2	-0.1	10.1

FSL Vs Nifty



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Firstsource Solutions Ltd (FSOL) in Q3FY26, FY26 constant currency revenue growth guidance maintained to 14.5%-15.5% (Includes 1.5% contribution from acquisitions of Pastdue Credit Solutions and TeleMedik) and EBIT Margin 11.5-12% The company reported revenue at INR 2,443 Cr (USD 274 mn in-line the estimate of USD 275 Mn), y/y growth of 3.4% QoQ/+10% YoY in INR term above our estimate of INR 2,470 Cr. Constant currency growth of 4.6%QoQ/ 10.6% YoY. EBIT Margin at INR 291.5 Cr in-line with our estimate of INR 291 Cr. Margin at 11.9 % in line with our estimate of 11.8% PAT at INR 120.3 Cr Adjusted PAT 220.5 Cr. EPS of INR 1.74 against INR 2.6 in Q2FY26.

Margin Expansion Is Structural, Not Cyclical: EBIT margin expanded to 11.9% in Q3FY26, up 80 bps YoY and 40 bps QoQ, marking the 5th straight quarter of margin expansion. EBIT growth of ~25% YoY outpaced revenue growth, reflecting operating leverage and delivery optimization. The company raised FY26 EBIT margin guidance to 11.5–12.0%, ahead of earlier expectations. Medium-term margin aspiration remains 14–15% over the next 3–4 years, driven by automation, offshoring, and non-linear pricing. Importantly, margin gains have been achieved while investing in sales, AI, and capabilities. This underscores the structural nature of profitability improvement rather than cost deferral.

Large Deal Engine and Client Mining Drive Durable Growth: Signed five large deals in Q3, taking total large-deal wins to 13 in 9M FY26 versus 14 in full FY25. Notably, 6 large deals in FY26 have come from new logos, highlighting improved competitiveness. The company added 9 new logos in Q3, including 5 strategic logos (>$5 mn annual revenue potential). Over the last eight quarters, top-5 and top-10 client revenue concentration reduced by 8% and 11%, respectively. Client base depth improved, with 141 clients generating >$1 mn revenue run rate. This diversification lowers revenue volatility and strengthens long-term growth quality.

AI-Led UnBPO Model Creates Differentiation: UnBPO strategy is shifting the business from linear, seat-based contracts to outcome-led, tech-enabled models. Management indicated that >50% of revenue is now non-linear in construct. AI-led offerings in mortgage transformation, collections, CX, and healthcare operations are gaining traction. These solutions help clients achieve structural cost reduction and productivity uplift, particularly in high-rate and margin-stressed environments. UnBPO also supports higher wallet share and stickier relationships. This model strengthens pricing power and margin durability. Over time, it positions FSOL as a transformation partner rather than a traditional BPM vendor.

Outlook and valuation

The company guided FY26 CC revenue growth of 13–14% organically, and 14.5–15.5% including Past due Credit and TeleMedik. EBIT margin guidance has been upgraded to 11.5–12.0% for FY26. Q4 FY26 is expected to deliver stronger sequential growth, despite seasonality and healthcare account rationalization. The large-deal pipeline and AI-led demand provide confidence beyond FY26. Medium-term margin aspiration of 14–15% remains intact. Overall, FSOL offers a combination of top-quartile growth, expanding margins, and improving business quality. We expect FSL Revenue/EBITDA/PAT to grow at a CAGR of 14.5%/16.7%/~17.5%, respectively, over FY26e-28e. We value FSL at a PE of 26x to its FY28e EPS of INR 13.7, which yields a target price of INR 357 per share. We maintain our rating to an Accumulate on the stock.

Exhibit 1 Financial Performance

Particular	**FY25**	**FY26E**	**FY27E**	**FY28E**
Sales	7,980	9,184	10,478	12,030
EBIT	881	1,029	1,177	1,361
EBIT Margin	*11.0%*	*11.2%*	*11.2%*	*11.3%*
Reported PAT	595	607	807	956
PE (x)	*35.9*	*35.5*	*26.7*	*22.6*
EPS	8.6	8.7	11.6	13.7

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Performance (Consolidated)

Consolidated (in INR Cr)	Q3FY26	Q2FY26	Q3FY25	Q-o-Q	Y-o-Y
Revenue (Mn USD)	274	265	249	*3.4%*	*10.0%*
Net Revenue	2,443	2,312	2,102	*5.7%*	*16.2%*
Employee cost	1,431	1,362	1,307	*5.1%*	*9.5%*
Other Expenses	609	574	478	*6.1%*	*27.5%*
EBITDA	403	376	318	*7.1%*	*26.8%*
EBITDA margin %	*16.5%*	*16.3%*	*15.1%*	61bps	134bps
Depreciation	111	110	84	*1.5%*	*31.8%*
EBIT	291.5	266.5	233.3	*9.4%*	*24.9%*
EBIT margin %	11.9%	11.5%	11.1%	26bps	72bps
Other Income	4	-1	-2	-	-
Finance costs	43	43	39	*1.1%*	*10.0%*
Adj PBT	251.8	222.4	191.8	*13.2%*	*31.3%*
Exceptional item	100	-2	-9		
PBT	151.677	224.334	200.654	*-32.4%*	*-24.4%*
Tax Expense	31	45	40	*-30.1%*	*-22.3%*
Effective tax rate %	12.4%	20.2%	21.0%	-44bps	96bps
PAT	120.3	179.5	160.3	*-33.0%*	*-24.9%*
Non-controling intrest	-0	-0	0		
Consolidated PAT	120.3	179.5	160.304	*-33.0%*	*-24.9%*
PAT margin %	*4.9%*	*7.8%*	*7.6%*	13bps	59bps
EPS (INR)	1.74	2.60	2.33	*-33.1%*	*-25.3%*
Consolidated (in INR Cr)	**Q3FY26**	**Q2FY26**	**Q3FY25**	**Q-o-Q**	**Y-o-Y**
Banking and Financial Services	781	768	676	*1.7%*	*15.6%*
Healthcare	793	777	710	*2.0%*	*11.7%*
Communication, Media and Technology	524	502	425	*4.4%*	*23.4%*
Diverse Industries	370	268	278	*37.9%*	*33.1%*

Source: Arihant Research, Company Filings

FSL-Q3FY26 Concall KTAs

Guided FY26 organic CC growth at 13–14% and 14.5–15.5% including acquisitions, implying confidence in pipeline conversion. Importantly, guidance assumes no macro tailwinds, suggesting conservatism. FY26 EBIT margin guidance was raised to 11.5–12.0%, reflecting execution confidence. The company reiterated a medium-term EBIT margin aspiration of 14–15% over 3–4 years. Q4 growth is expected to be stronger than Q3 sequentially. Visibility into FY27 remains healthy.

Sequential momentum has improved steadily through FY26, validating management's early-year commentary. Q4 is expected to see further QoQ acceleration, despite seasonality. Growth remains broad-based across verticals and geographies, reducing reliance on any single demand driver. Execution continues to outpace industry averages.

Margins

EBIT margin expanded to 11.9% in Q3 (+80 bps YoY / +40 bps QoQ), marking the 5th consecutive quarter of margin expansion. Margin gains are driven by delivery optimization, offshoring, automation, and pricing discipline. Importantly, expansion has been achieved alongside investments in sales, AI, and leadership. Management reiterated that margin improvement is structural, not cyclical. The company remains on track for sustained margin progression. Near-term reinvestments are not expected to derail margin trajectory.

Deals

Signed five large deals in Q3, extending the streak to four consecutive quarters with 4+ large deals. In 9M FY26, 13 large deals were closed versus 14 in full FY25, highlighting acceleration. Notably, six large deals in FY26 came from new logos, a structural positive. Deal sizes and complexity continue to increase. The large-deal engine is now a consistent growth lever rather than episodic. This materially improves medium-term revenue visibility.

Pipeline
The deal pipeline remains robust at >USD 1 bn, up ~40% over the last four quarters. Pipeline quality has improved with higher mix of transformation-led and AI-enabled deals. Conversion confidence remains strong, supported by dedicated large-deal pursuit teams. Pipeline diversification across BFSI, Healthcare, CMT, and Diverse verticals lowers execution risk. Management commentary suggests no slowdown in deal discussions. This underpins confidence in FY27 growth continuity.

Clients
Client concentration continues to improve, with top-5 and top-10 revenue concentration down 8% and 11% over eight quarters. FSOL now has 141 clients with >USD 1 mn run-rate, up 34 YoY. Growth is increasingly driven by mid-tier accounts rather than just top clients. Strategic logo mining is yielding results, with faster ramp-ups to USD 5 mn+ run-rate. This diversification reduces earnings volatility. Client quality and stickiness continue to improve.

UnBPO
The UnBPO model is emerging as a key differentiator, shifting FSOL away from linear, seat-based pricing. Management indicated >50% of revenue is now non-linear in construct. Clients are increasingly seeking outcome-led, AI-enabled engagements. UnBPO supports higher wallet share, stickier relationships, and margin resilience. The model resonates particularly in cost-pressured environments. Over time, this should structurally re-rate FSOL's business mix and margins.

BFSI
BFSI growth remained resilient despite high interest rates and muted refinancing activity. Demand is driven by regulatory compliance, cost optimization, and AI-led servicing rather than volume-led tailwinds. Mortgage transformation and collections offerings are seeing traction even without rate cuts. FSOL's consulting-led approach allows it to move upstream in client value chains. Macro normalization could act as an upside, not a base assumption. BFSI remains a stable growth pillar.

Healthcare
Healthcare growth was modest in Q3 due to intentional rationalization of low-margin provider accounts. Management expects a ~50 bps FY26 revenue impact, but views this as margin-accretive over the medium term. Creation of separate payer and provider leadership improves execution focus. TeleMedik strengthens payer-side capabilities and adds a US-shore cost advantage via Puerto Rico. Deal pipeline remains healthy post-reset. Medium-term healthcare profitability should improve.

CMT
CMT delivered 14% YoY CC growth and remains one of the fastest-growing verticals. Q3 seasonality was expected due to holidays, but demand trends remain intact. Growth is driven by deepening engagements with consumer tech clients. AI integration into client ecosystems is a key growth driver. The pipeline across telecom, media, and new-age tech remains balanced. CMT continues to outperform company average growth.

Diverse
The Diverse portfolio grew 21% YoY and 37% QoQ in CC terms, driven by utilities and retail. The Pastdue Credit acquisition significantly strengthens utilities exposure, especially in the UK. Retail pipeline momentum remains healthy across renewals and expansions. This segment provides counter-cyclical diversification. Growth here reduces dependence on BFSI and Healthcare. Contribution is expected to remain strong in FY27.

Acquisitions
Pastdue Credit contributed ~2% to CC growth in Q3 and is profitable at company-average margins. TeleMedik, integrated in Q4, expands clinical and utilization management capabilities. Both acquisitions are strategically aligned and bolt-on in nature. Integration risks appear limited. M&A remains disciplined and margin-aware. Acquisitions enhance domain depth rather than just scale.

Net debt at INR 11.7 bn remains manageable. Interim dividend of INR 5.5/share highlights shareholder-friendly capital allocation.

Offshore and nearshore hires accounted for ~80% of gross additions, supporting margin expansion. Attrition declined to 27.4%, improving ~10 ppt over eight quarters. The shift to a skills-first organization via UnBPO strengthens workforce productivity. Investments in AI and data fluency enhance long-term competitiveness. Delivery resilience continues to improve. Talent strategy supports both growth and margins.

Operating Metrics	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Revenue by Vertical									
Banking & Financial Services	38.30%	37.30%	36.40%	34.40%	32.40%	33.40%	32.50%	33.20%	31.70%
Healthcare	33.50%	32.90%	35.70%	36.30%	34.00%	33.80%	33.40%	33.50%	32.10%
Communications Media & Tech	22.50%	23.60%	22.30%	21.30%	20.30%	21.00%	22.40%	21.70%	21.20%
Diverse Industries	5.70%	6.20%	5.60%	8.00%	13.30%	11.80%	11.70%	11.60%	15.00%
Revenue by Geography									
US	65.40%	65.00%	68.20%	68.50%	66.30%	67.70%	68.70%	69.40%	67.20%
Europe, Middle East, and Africa	34.50%	34.90%	31.80%	31.40%	33.60%	31.50%	30.10%	29.40%	31.70%
ROW	0.10%	0.10%	0.00%	0.10%	0.10%	0.80%	1.20%	1.20%	1.10%
Revenue by Delivery									
Offshore	30.30%	31.40%	35.00%	35.80%	40.10%	37.80%	41.20%	41.60%	43.30%
Onshore	69.70%	68.60%	65.00%	64.20%	59.90%	62.20%	58.80%	54.40%	56.60%
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%	28.10%
Top 10 clients (share of total revenues)	52.00%	52.60%	51.50%	48.60%	43.50%	43.70%	42.60%	42.30%	40.70%
Other Metrices									
Total employees (end of period)	25947	27940	29231	32898	34144	34651	34495	35997	36689
Net Addition	1994	1993	1291	3667	1246	507	-156	1502	692
Attrition (TTM)	37.70%	35.40%	32.00%	30.90%	31.40%	29.80%	28.90%	28.00%	27.40%
Client Distribution									
US$ 1m+ clients (nos.)	104	103	100	105	107	116	141	142	141
US$ 5m+ clients (nos.)	25	25	25	26	28	30	38	39	41
US$ 10m+ clients (nos.)	13	13	13	13	14	15	17	17	18
US$ 20m+ clients (nos.)	8	8	9	11	10	10	11	9	9
US$ 50m+ clients (nos.)	2	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%	66.10%
GBP	34.40%	34.40%	31.40%	30.90%	34.20%	32.70%	30.10%	29.20%	31.90%
Others	0.70%	0.80%	0.70%	0.90%	0.90%	1.60%	2.00%	2.30%	2.00%

Source: Arihant Research, Company Filings

Key Financials

Income Statement (INR Cr)				
Year End-March	**FY25**	**FY26E**	**FY27E**	**FY28E**
Revenue USD term	**944.0**	**1080.5**	**1234.1**	**1416.9**
Change (%)	-2.9%	14.5%	14.2%	14.8%
Revenues	7,980	9,184	10,478	12,030
Change (%)	25.9%	15.1%	14.1%	14.8%
Employee costs	4,996	5,924	6,622	7,603
Other expenses	1,777	1,929	2,305	2,647
Total Expenses	**6,773**	**7,853**	**8,927**	**10,249**
EBITDA	**1,208**	**1,332**	**1,551**	**1,780**
EBIDTA Margin	**15.13%**	**14.50%**	**14.80%**	**14.80%**
Depreciation	327	302	374	420
EBIT	**881**	**1029**	**1177**	**1361**
EBIT Margin	**11.03%**	**11.21%**	**11.23%**	**11.31%**
Interest	148	170	168	166
Other Income	-1	0	0	0
PBT	**732**	**859**	**1,009**	**1,195**
Exceptional Items	-8.81	100.15	-	-
PBT after exceptional Items	**741**	**759**	**1,009**	**1,195**
Tax	146	152	202	239
Rate (%)	*19.7%*	*20.0%*	*20.0%*	*20.0%*
PAT	**594**	**607**	**807**	**956**
Margin	**7%**	**7%**	**8%**	**8%**
Consolidated PAT	**595**	**607**	**807**	**956**
Change (%)	*15.5%*	*2.2%*	*32.8%*	*18.4%*

Balance Sheet (INR Cr)				
Year End-March	**FY25**	**FY26E**	**FY27E**	**FY28E**
Sources of Funds				
Share Capital	697	697	697	697
Reserves & Surplus	3,401	3,764	4,327	5,039
Non controlling interest	0	0	0	0
Total Equity	**4,098**	**4,462**	**5,025**	**5,736**
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**

Cash Flow Statement (INR Cr)				
Year End-March	**FY25**	**FY26E**	**FY27E**	**FY28E**
PBT	**741**	**759**	**1,009**	**1,195**
Cash From Operating Activities	823	1,880	1,600	1,832
Tax	-122	152	202	239
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**	**-170**	**-168**	**-166**
Cash From Financing	23	-342	-414	-413
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

Key Ratios				
Year End-March	**FY25**	**FY26E**	**FY27E**	**FY28E**
Per share (INR)				
EPS	8.6	8.7	11.6	13.7
BVPS	59	64	72	82
Valuation (x)				
P/E	35.9	35.5	26.7	22.6
P/BV	5.3	4.8	4.3	3.8
EV/EBITDA	19.0	17.9	14.7	12.4
Return ratio (%)				
EBIDTA Margin	15.1%	14.5%	14.8%	14.8%
EBIT Margin	11.0%	11.2%	11.2%	11.3%
PAT Margin	7.5%	6.6%	7.7%	7.9%
ROE	14.5%	13.6%	16.1%	16.7%
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: Arihant 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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