REDUCE Firstsource Solutions

Balanced quarter; growth to accelerate in H2

Emkay — Your success is our success

Information Technology ▸ Result Update ▸ **November 05, 2025** | **CMP (Rs): 353 | TP (Rs): 350**

Firstsource (FSOL) reported a largely in-line operating performance in Q2. Revenue grew 2.3% QoQ to USD265mn (2.0% CC), a tad below our estimate. EBITM expanded by 20bps QoQ to 11.5%, marking the 4th consecutive quarter of margin expansion, though a tad below our estimated 11.6%. FSOL signed four large deals (each with ACV exceeding USD5mn; two representing additional business from the top 5 accounts) and added 10 new logos in Q2 (including four strategic). It added 19 strategic logos between Q2FY25 and Q1FY26; of these, 13 have already achieved USD5mn relationship size on a TTM basis and four from Q1 still have ramping-up runway. FSOL retained its FY26 revenue growth guidance of 13-15% in CC terms (excluding PDC's acquisition, which is pending regulatory approval), implying a CQGR of 3.3-5.6% over Q3-Q4, and EBITM guidance of 11.25-12%. Revenue growth is set to accelerate in H2, fueled by revenue from the healthcare BPaaS deal, phased ramp-ups of large deals, a robust deal pipeline (>USD1bn ACV), and healthy headcount additions made in Q2 which would support potential demand. We largely retain our FY26-28E EPS (<1% change), factoring in the in-line Q2 results. We retain REDUCE, with an unchanged TP of Rs350, at 24x Sep-27E EPS.

Results Summary

Revenue grew 2.3% QoQ to USD265mn (2.0% CC), below our estimated USD267mn (3.0% CC). Revenue growth was led by BFS (4% CC QoQ), Healthcare (3%); meanwhile, Diverse Industries came flat and CMT fell 1%. Among geographies, growth was broad based – North America grew 5.3% QoQ in rupee terms, EMEA 1.8% (though the UK was soft), and the RoW 4.3%. The company added 10 new logos (of which four are strategic) and won four large deals in Q2. EBITM expanded by 20bps QoQ to 11.5% despite wage hikes for most employees, driven by right-sourcing of talent, currency benefits, optimization of the delivery structure, and proactive tech/AI interventions. Headcount grew 4.4% QoQ to 35,997, with ~80% of gross hirings from offshore/nearshore. **What we liked:** Steady operating performance, the momentum in strategic logo addition and deal pipeline, and healthy cash conversion (~82% OCF/EBITDA in H1). **What we did not like:** Softness in Europe.

Earnings Call KTAs

1) The BFS segment saw a strong momentum (added three new logos in Q2). The company strengthened its BFS sales and solutions team in North America to deepen client relationships, reduce macro dependency, and grow market share. It had the highest deal pipeline in Q2 in this segment in the last four quarters, giving the management the confidence to sustain growth momentum in H2. 2) Healthcare continues to be a strong and strategic vertical for FSOL (signed three large deals in Q2). The payer business continues to be a strategic growth area, supported by relationships with 12 of the top 15 health plans in the US. FSOL exited Q2 with a ~2.5x larger pipeline than last year. The management remained confident of accelerating growth momentum in H2 on the back of large deal ramp-ups….(contd)…

Target Price – 12M	Sep-26
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(0.8)

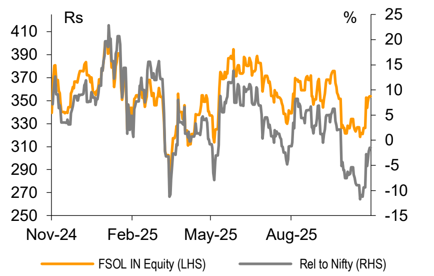
Stock Data	**FSOL IN**
52-week High (Rs)	423
52-week Low (Rs)	270
Shares outstanding (mn)	697.0
Market-cap (Rs bn)	246
Market-cap (USD mn)	2,772
Net-debt, FY26E (Rs mn)	11,477.7
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	493.1
ADTV-3M (USD mn)	5.6
Free float (%)	45.2
Nifty-50	25,597.7
INR/USD	88.7

Shareholding,Sep-25	
Promoters (%)	53.7
FPIs/MFs (%)	9.3/24.6

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	9.7	2.5	(1.8)
Rel. to Nifty	6.7	(1.0)	(8.0)

1-Year share price trend (Rs)



Firstsource Solutions: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	63,362	79,803	94,949	107,633	120,703
EBITDA	9,564	12,076	15,364	17,762	20,315
Adj. PAT	5,147	5,856	7,488	9,330	11,193
Adj. EPS (Rs)	7.4	8.4	10.7	13.4	16.1
EBITDA margin (%)	15.1	15.1	16.2	16.5	16.8
EBITDA growth (%)	15.7	26.3	27.2	15.6	14.4
Adj. EPS growth (%)	0.2	13.8	27.9	24.6	20.0
RoE (%)	14.6	15.0	17.4	19.7	21.2
RoIC (%)	13.6	14.1	15.3	17.6	19.6
P/E (x)	47.7	41.3	32.7	26.3	22.0
EV/EBITDA (x)	26.2	20.7	16.3	14.1	12.3
P/B (x)	6.6	6.0	5.5	4.9	4.4
FCFF yield (%)	2.2	1.9	3.4	3.7	4.5

Source: Company, Emkay Research

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…(contd)…3) CMT faced some volatility in Q2 due to project transitions; however, it still remains the fastest-growing vertical on a YoY basis, driven by strong engagement with consumer tech brands. It added four new logos in Q2. The company continues to see a well-balanced pipeline spanning traditional media and communication companies as well as new-age tech companies. 4) Diverse industries' segments, which comprise retail and utilities, remained flat, reflecting sluggish demand in the UK. Although the pipeline is healthy, growth is expected to remain modest in the near term. 5) The management expects healthy, broad-based growth across BFS, Healthcare, and CMT in North America. 6) Europe remains soft amid muted economic growth and elevated labor costs from regulatory changes, prompting clients to accelerate offshoring/nearshoring. The management expects the pace of recovery in the European market to remain gradual as decision-making cycles continue to take longer than usual. 7) It initiated Dubai operations to address opportunities in the Middle East. 8) Australia continues to add work with existing clients and build the new logo pipeline, supported by strategic investments. 9) The deal pipeline crossed USD1bn ACV for the first time, and the management noted that ~50% of ACV from 22 large deals in the last six quarters came from the non-top 5 clients, highlighting diversification and improved win rates in broader accounts. 10) The share of the top 5 and top 10 clients came down by 6.2% and 9% respectively, over the last eight quarters. 11) The company gained 0.5% market share over the last eight quarters, compared to those of 15 of its closest, publicly-traded global peers. 12) D&A inched up in H1 due to a shift to a large, new building in Mumbai. FSOL expects the Q2 D&A run rate to continue. 13) Refinance volume in the US mortgage business is expected to pick up with further rate cuts. The 30-year fixed rate is around 6.2-6.3%, which is on the higher side as around 88% of current mortgages are below 5% and 80% are below 4%, reducing refinancing incentives at prevailing interest rates.

Update on AI/Gen AI

1) The management expects traditional linearity between headcount and revenue to weaken, with 'revenue per headcount' and 'percentage of contracts on non-linear commercial constructs' emerging as key external indicators of UnBPO's adoption. 2) Firstsource invested in Applied AI and Lyzr for minority stakes, to drive AI-led enterprise transformation beyond traditional automation – i) Applied AI uses a 'large work model' to reengineer workflows, streamlining mortgage processes like document review and credit checks, ii) Lyzr (an agentic AI platform) enables autonomous GenAI agents for tasks such as verification, analysis, communication, and compliance – delivering faster approvals, higher accuracy, and lower costs.

Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Revenues (USD mn)	265.0	259.0	2.3	230.0	15.2
Net sales	23,122	22,177	4.3	19,254	20.1
Total Income	23,122	22,177		19,254	
Operating expenses	19,362	18,706	3.5	16,381	18.2
EBITDA	3760	3471	8.3	2873	30.9
Margins (%)	16.3	15.7	60	14.9	130
Depreciation	1096	972		792	
EBIT	2665	2498	6.7	2081	28.1
Margins (%)	11.5	11.3	30	10.8	70
Interest Paid	428	434		343	
Other income	-13	68		-27	
Non-recurring items	-19	0		0	
Pre-tax profit	2243	2132	5.2	1710	31.2
Tax provided	448	439		328	
Profit after tax	1795	1693		1382	
Minority	0	0		0	
Emkay Net profit	1,776	1,693	4.9	1,382	28.5
EPS (Rs)	2.6	2.4	6.0	2.0	29.9

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Emkay estimate	Consensus estimate	Variation		Comments
				Emkay	Consensus	
Revenues (USD mn)	265	267	265	-0.7%	-0.2%	Revenue was a tad lower than our estimate.
Sales	23,122	23,293	23,182	-0.7%	-0.3%	
EBIT	2,665	2,694	2,674	-1.1%	-0.4%	
EBIT margin	11.5%	11.6%	11.5%	0 bps	0 bps	Margins came broadly in line with our expectations.
PAT	1,776	1,813	1,838	-2.0%	-3.4%	Profit missed estimates due to operating performance miss and higher ETR.

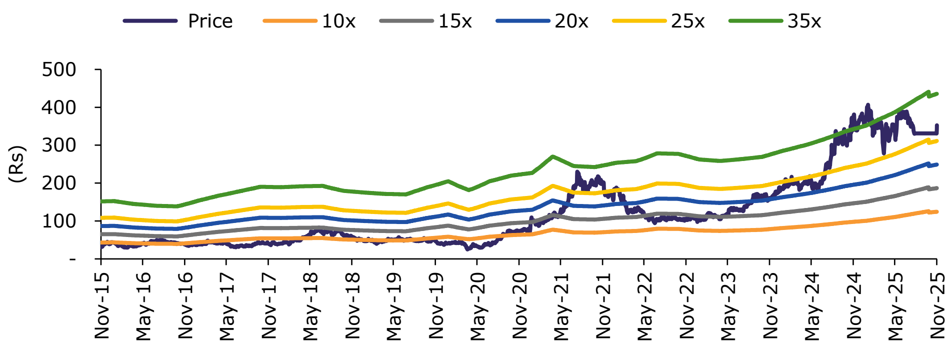
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY26E			FY27E			FY28E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	1,092	1,089	-0.3%	1,229	1,226	-0.3%	1,364	1,360	-0.3%
USD revenue, YoY growth	15.7%	15.4%		12.5%	12.5%		11.0%	11.0%	
Revenue	94,839	94,949	0.1%	107,628	107,633	0.0%	120,730	120,703	0.0%
Revenue, YoY growth	18.8%	19.0%		13.5%	13.4%		12.2%	12.1%	
EBIT	10,972	11,061	0.8%	13,245	13,252	0.0%	15,457	15,452	0.0%
EBIT margin	11.6%	11.6%		12.3%	12.3%		12.8%	12.8%	
PAT	7,446	7,507	0.8%	9,325	9,330	0.1%	11,197	11,193	0.0%
EPS (Rs)	10.7	10.8	0.8%	13.4	13.4	0.1%	16.1	16.1	0.0%

Source: Company, Emkay Research

Exhibit 4: FSOL – One-year forward PER



Source: Company, Emkay Research

Firstsource Solutions: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**63,362**	**79,803**	**94,949**	**107,633**	**120,703**
Revenue growth (%)	5.2	25.9	19.0	13.4	12.1
EBITDA	**9,564**	**12,076**	**15,364**	**17,762**	**20,315**
EBITDA growth (%)	15.7	26.3	27.2	15.6	14.4
Depreciation & Amortization	2,602	3,270	4,303	4,511	4,863
EBIT	**6,962**	**8,806**	**11,061**	**13,252**	**15,452**
EBIT growth (%)	23.6	26.5	25.6	19.8	16.6
Other operating income	-	-	-	-	-
Other income	368	(9)	94	76	76
Financial expense	1,034	1,479	1,775	1,665	1,537
PBT	**6,297**	**7,318**	**9,380**	**11,662**	**13,991**
Extraordinary items	0	88	19	0	0
Taxes	1,150	1,462	1,892	2,332	2,798
Minority interest	-	-	-	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	**5,147**	**5,945**	**7,507**	**9,330**	**11,193**
PAT growth (%)	0.2	15.5	26.3	24.3	20.0
Adjusted PAT	**5,147**	**5,856**	**7,488**	**9,330**	**11,193**
Diluted EPS (Rs)	**7.4**	**8.4**	**10.7**	**13.4**	**16.1**
Diluted EPS growth (%)	0.2	13.8	27.9	24.6	20.0
DPS (Rs)	**3.5**	**4.0**	**5.0**	**6.5**	**7.5**
Dividend payout (%)	**46.7**	**46.4**	**46.4**	**48.6**	**46.7**
EBITDA margin (%)	15.1	15.1	16.2	16.5	16.8
EBIT margin (%)	11.0	11.0	11.6	12.3	12.8
Effective tax rate (%)	18.3	20.0	20.2	20.0	20.0
NOPLAT (pre-IndAS)	**5,691**	**7,047**	**8,830**	**10,601**	**12,361**
Shares outstanding (mn)	697	697	697	697	697

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	6,970	6,970	6,970	6,970	6,970
Reserves & Surplus	30,034	34,006	38,029	42,828	48,794
Net worth	**37,004**	**40,976**	**44,999**	**49,798**	**55,763**
Minority interests	4	4	4	4	4
Non-current liab. & prov.	1,470	1,645	1,645	1,645	1,645
Total debt	**6,715**	**15,327**	**13,863**	**12,640**	**10,662**
Total liabilities & equity	**52,402**	**68,318**	**71,510**	**75,087**	**79,075**
Net tangible fixed assets	1,641	2,763	3,550	3,682	3,867
Net intangible assets	649	1,248	685	407	383
Net ROU assets	6,355	9,126	10,238	11,023	11,860
Capital WIP	171	491	100	100	100
Goodwill	29,885	36,799	36,799	36,799	36,799
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	**2,300**	**2,401**	**2,385**	**2,512**	**2,628**
Current assets (ex-cash)	19,624	26,395	28,376	31,729	35,678
Current Liab. & Prov.	8,223	10,904	10,624	11,167	12,241
NWC (ex-cash)	**11,401**	**15,490**	**17,752**	**20,563**	**23,437**
Total assets	**52,402**	**68,318**	**71,510**	**75,087**	**79,075**
Net debt	4,415	12,926	11,478	10,128	8,034
Capital employed	52,402	68,318	71,510	75,087	79,075
Invested capital	**43,576**	**56,300**	**58,787**	**61,451**	**64,486**
BVPS (Rs)	53.1	58.8	64.6	71.4	80.0
Net Debt/Equity (x)	0.1	0.3	0.3	0.2	0.1
Net Debt/EBITDA (x)	0.5	1.1	0.7	0.6	0.4
Interest coverage (x)	7.1	5.9	6.3	8.0	10.1
RoCE (%)	**17.4**	**17.6**	**19.4**	**22.0**	**24.1**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	6,297	7,407	9,399	11,662	13,991
Others (non-cash items)	3,273	5,767	4,209	4,435	4,787
Taxes paid	(718)	(1,219)	(1,892)	(2,332)	(2,798)
Change in NWC	(2,404)	(4,944)	(1,570)	(2,810)	(2,874)
Operating cash flow	**6,448**	**7,011**	**10,146**	**10,954**	**13,105**
Capital expenditure	(850)	(2,236)	(1,749)	(1,650)	(1,860)
Acquisition of business	0	(5,099)	0	0	0
Interest & dividend income	10	27	94	76	76
Investing cash flow	**(483)**	**(7,468)**	**(1,639)**	**(1,574)**	**(1,784)**
Equity raised/(repaid)	0	0	-	0	0
Debt raised/(repaid)	(291)	6,787	(1,522)	(1,223)	(1,978)
Payment of lease liabilities	-	-	-	-	-
Interest paid	(1,011)	(1,579)	0	0	0
Dividend paid (incl tax)	(2,406)	(2,759)	(3,485)	(4,530)	(5,227)
Others	(1,935)	(2,223)	(3,500)	(3,500)	(4,000)
Financing cash flow	**(5,642)**	**226**	**(8,507)**	**(9,253)**	**(11,205)**
Net chg in Cash	323	(231)	-	127	116
OCF	6,448	7,011	10,146	10,954	13,105
Adj. OCF (w/o NWC chg.)	8,852	11,955	11,716	13,765	15,979
FCFF	5,597	4,775	8,397	9,304	11,245
FCFE	4,574	3,323	6,716	7,715	9,784
OCF/EBITDA (%)	67.4	58.1	66.0	61.7	64.5
FCFE/PAT (%)	88.9	55.9	89.5	82.7	87.4
FCFF/NOPLAT (%)	**98.4**	**67.8**	**95.1**	**87.8**	**91.0**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	47.7	41.3	32.7	26.3	22.0
EV/CE(x)	5.7	4.4	4.2	4.0	3.8
P/B (x)	6.6	6.0	5.5	4.9	4.4
EV/Sales (x)	3.9	3.1	2.6	2.3	2.1
EV/EBITDA (x)	26.2	20.7	16.3	14.1	12.3
EV/EBIT(x)	35.9	28.4	22.6	18.9	16.2
EV/IC (x)	5.7	4.4	4.3	4.1	3.9
FCFF yield (%)	2.2	1.9	3.4	3.7	4.5
FCFE yield (%)	1.9	1.4	2.7	3.1	4.0
Dividend yield (%)	1.0	1.1	1.4	1.8	2.1
DuPont-RoE split					
Net profit margin (%)	8.1	7.3	7.9	8.7	9.3
Total asset turnover (x)	1.4	1.5	1.6	1.7	1.8
Assets/Equity (x)	1.2	1.3	1.4	1.3	1.2
RoE (%)	**14.6**	**15.0**	**17.4**	**19.7**	**21.2**
DuPont-RoIC					
NOPLAT margin (%)	9.0	8.8	9.3	9.8	10.2
IC turnover (x)	1.5	1.6	1.7	1.8	1.9
RoIC (%)	**13.6**	**14.1**	**15.3**	**17.6**	**19.6**
Operating metrics					
Core NWC days	65.7	70.8	68.2	69.7	70.9
Total NWC days	**65.7**	**70.8**	**68.2**	**69.7**	**70.9**
Fixed asset turnover	1.6	1.8	1.9	2.1	2.2
Opex-to-revenue (%)	84.9	84.9	83.8	83.5	83.2

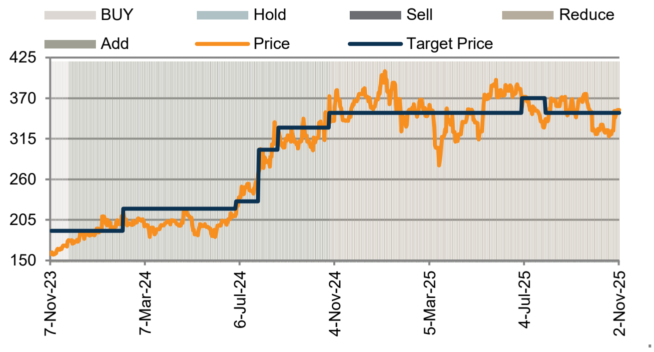
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
01-Oct-25	326	350	Reduce	Dipeshkumar Mehta
08-Sep-25	344	350	Reduce	Dipeshkumar Mehta
31-Jul-25	342	350	Reduce	Dipeshkumar Mehta
20-Jul-25	353	370	Reduce	Dipeshkumar Mehta
14-Jul-25	349	370	Reduce	Dipeshkumar Mehta
01-Jul-25	358	370	Reduce	Dipeshkumar Mehta
29-Apr-25	352	350	Reduce	Dipeshkumar Mehta
31-Mar-25	340	350	Reduce	Dipeshkumar Mehta
08-Feb-25	355	350	Reduce	Dipeshkumar Mehta
01-Jan-25	384	350	Reduce	Dipeshkumar Mehta
28-Oct-24	373	350	Reduce	Dipeshkumar Mehta
01-Oct-24	312	330	Add	Dipeshkumar Mehta
24-Sep-24	334	330	Add	Dipeshkumar Mehta
24-Aug-24	323	330	Add	Dipeshkumar Mehta
30-Jul-24	271	300	Add	Dipeshkumar Mehta
01-Jul-24	214	230	Add	Dipeshkumar Mehta
09-Jun-24	197	220	Add	Dipeshkumar Mehta
03-Jun-24	192	220	Add	Dipeshkumar Mehta
27-May-24	194	220	Add	Dipeshkumar Mehta
03-May-24	208	220	Add	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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