Firstsource Solutions Limited (Revised)

December 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	351.00 (Enhanced from 311.00)	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**351.00 (₹ Three Hundred Fifty-One Crore Only)**		
Commercial Paper@	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**50.00 (₹ Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.
@Carved out of sanctioned working capital limits

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities/instrument of Firstsource Solutions Limited (FSL) derive strength from the company's strong parentage, being part of RP-Sanjiv Goenka group, experience of the management in the business process management (BPM) industry, well diversified revenue profile spread across multiple verticals and its strong brand recall and established position in the overseas markets. The ratings also take into consideration steady operating performance, relatively low volatility in operating profitability despite downturns in the US mortgage segment, adequate capital structure and healthy cash accruals. The degree of risk emanating from the frequent acquisitions is relatively low, as the company focuses on small ticket size acquisitions as compared to its annual cash accruals.
However, the rating strengths are tempered by FSL's exposure to intense competition in the BPM industry, risk associated with high attrition rates, customer and geographical concentration risk and foreign exchange fluctuation risks.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- TDGCA below 0.75x on a sustained basis
- Improvement in profitability margins (PAT margin>10% on a consolidated level) with the consolidated return on capital employed over 20% on a sustained basis.
- Diversification of revenue resulting into reduced dependence on single customer.
- Current ratio greater than 1.5x going ahead on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large sized debt-funded capex, mergers or acquisitions or unrelated diversification resulting in overall gearing over unity on sustained basis.
- PAT margin less than 5% on sustained basis

Detailed description of the key rating drivers

Incorporated in 2001, FSL is an integrated BPO service provider with a global footprint. FSL is a part of RP-Sanjiv Goenka group, for the past 9 Years. The group's business includes power and energy, carbon black manufacturing, retail, FMCG, media and entertainment, agriculture, and IT. The group includes more than 23 companies in its portfolio with combined revenue of USD 3-4 billion (~Rs.266 billion). The RP-Sanjiv Goenka Group acquired 56.82% shares of FSL through Spen Liq Private Limited, a wholly owned subsidiary of CESC Limited (rated CARE AA: Stable/A1+ as per PR dated Nov 11, 2022) during FY12-13. Following restructuring in RPSG group, the stake now vests upon RPSG Ventures (another group company) which holds 53.66% in FSL. FSL has a qualified senior and middle management team with a track record of operational excellence.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Steady operational performance
During FY22, total operating income grew 16.5% YoY driven primarily due to good traction seen in the outsourcing of back-office operations amidst rising minimum wages in US/UK, where the company's client base lies. During H1FY23, there has been a decline in the mortgage segment due to high home loan interest rates in US, this has been offset by the rising demand from the services and collections segment.
The company has demonstrated relatively low fluctuations in PBILDT margins during turbulent times. This has been possible due to long-term nature of contracts with clients which enables steady revenue streams.

Comfortable capital structure and debt coverage indicators
The financial risk profile of the company is comfortable aided by healthy cash accruals on the back of stable operating profitability. The company has a strategy of regularly scouting for small size firms for acquisitions within its domain. Due the period of acquisitions, the gearing fluctuates as the company generally does acquisitions with a mix of debt and equity. Due to the acquisition of ARSI and Stonehill group, the overall gearing has climbed from 0.43x as on March 31, 2021 to 0.6x as on March 31, 2022. However, the debt coverage indicators remain strong due to size of the acquisitions being small compared to the company's gross cash accruals. Resultantly, interest coverage ratio stands at 11.3x for FY22 and 11.1x for H1FY23. Also, the overall gearing excluding lease liabilities stands at 0.26x as on Sep 30, 2022 which is quite comfortable range.

Diversified revenue profile and strong client base
FSL provides BPO services mainly across three verticals: BFSI, healthcare and CMT. The verticals contributed 49%, 29% and 19% respectively to the company's revenue during FY22. The company has more than 100 clients spanning across varied industries. Additionally, a significant portion of FSL's clients are "Fortune 500" and "FTSE 100" companies with strong financial profiles leading to low counterparty risk. The company's client profiles include top general-purpose credit card issuers, retail banks, motor insurers, private insurance companies, pay TV and mobile service operators, internet service providers and over 1,000 hospitals in the US.

Global delivery capabilities
FSL has presence across geographies and services its clients through its global delivery centres. As on March 31, 2022, the Company, on a consolidated basis had 43 global delivery centres including 15 located in India, 16 in USA, 9 in UK, 2 in Philippines and 1 in Mexico. The global delivery capability enables FSL to deliver wide range of services and gives the company proximity to its clients. Furthermore, the presence of its delivery centres across various geographies enables FSL to use locations and skills most appropriate for delivering BPO services to clients located across various geographies.

<u>Key rating weaknesses</u>
Increasing industry competition
With the rapid evolution of the Indian IT Enabled Services (ITeS) sector, competition is intense as companies compete for a share of the outsourcing pie. The competitive risk comes from BPO (like Hinduja Global Solutions, Genpact), BPM divisions of global IT companies (TCS, Accenture, Infosys), Local/onshore BPM providers in the US and Europe, In-house captives of potential clients. Also, there is shared services (where-in the client themselves flips their backend solutions to offshore location). This reduces the potential client base for the BPO companies.
FSL also faces competition from other low-cost outsourcing geographies like China, Philippines, Mexico, and Brazil. However, the company has an established brand name in the industry and has long relationships with its clientele which help the company to face the competition. Further, the increasing wage cost as well as costs associated with hiring and training fresh talent remains a big challenge. The revenue per employee is tabulated below:

Particulars	FY21	FY22	H1FY23
Total employees (As of period end)	28,004	26,557	23,932
- *In India*	*16,289*	*16,045*	*13,431*
- *Outside India*	*11,715*	*10,512*	*10,501*
Total revenue (Rs. crore)	5032.69	5865.74	2914.13
Revenue per employee (Rs. crore)	0.18	0.22	0.24*

**annualized*

Foreign exchange fluctuation risk
FSL is exposed to foreign exchange fluctuation risk on cross currency exposure (revenues and cost in different currencies) wherein the company caters to international customers from the delivery centres in India and Philippines. The company has a policy to hedge its exposure on a twelve-month rolling basis through forward cover contracts and options. However, the company is still exposed to foreign exchange fluctuation risk for any unhedged exposure.

Risks related to employee attrition
Indian BPM industry is facing stiff competition from low cost destinations like China, Philippines, Mexico, and Brazil due to increasing domestic cost. Further, rising attrition rate is impacting operating efficiency, productivity and profitability. Pressure from clients to cut costs through automation hurts revenue and entry of large IT players into BPO has further intensified competition as more clients look for integrated IT-BPO deals.

Customer concentration risk
Although improved, FSL derived 16 % of its total revenue for FY22 from its top client. However, average tenure of the contract with the top client is long term around 20 years. The company's top 5 clients contributed 39% of its revenue for FY22 thus exposing it to customer concentration risk. However, comfort is drawn from long standing association of FSL with these clients and ability to get repeat business over the years.

Liquidity: Strong

Liquidity profile remains strong with cash and cash equivalents at Rs.144 crore as on September 30, 2022. Additionally, current investments worth Rs. 103.2 crores has been parked in the mutual funds, bringing total liquid investments close to Rs. 247.2 crores. On standalone basis, the liquid investments are close to Rs. 118.4 crores. While the company would be open to acquisitions, ticket size is expected to be moderate. FSL has long term debt repayments of Rs.41.38 crore in FY23 and approx ~Rs.154 crore in FY24 which can be comfortably met through its internal accruals. Also, the company has sufficient room in the working capital limits, which are utilized to the extent of 20-25% for the trailing 12 months period.

Analytical approach

Consolidated Approach as the subsidiaries are into the same line of business and are operating under the common management. Details of the subsidiary and associate company included for consolidated approach is below:

Sr No.	Name of the Company	% of Holding as on March 31, 2022
	Subsidiaries	
1	Firstsource Solutions UK Limited (FSL UK)	100.00%
2	Firstsource Solutions S.A. (FSL-Arg)	99.98%
3	Firstsource BPO Ireland Limited (FSL Ireland)	100.00%
4	Firstsource Dialog Solutions (Private) Limited	74.00%
5	Firstsource Process Management Services Limited (FPMSL)	100.00%
6	Firstsource Group USA, Inc. (FG US)	100.00%
7	Firstsource Business Process Services, LLC (FBPS)	100.00%
8	Firstsource Advantage LLC (FAL)	100.00%
9	One Advantage LLC (OAL)	100.00%
10	Medassist Holding LLC (MedAssist)	100.00%
11	Firstsource Solutions USA LLC	100.00%
12	Firstsource Health Plans and Healthcare Services, LLC	100.00%
13	Sourcepoint, Inc	100.00%
14	Sourcepoint Fulfillment Services, Inc.	100.00%
15	PatientMatters, LLC (PM)	100.00%
16	Medical Advocacy Services for Healthcare, Inc (MASH)	100.00%
17	Kramer Technologies LLC (KT)	100.00%
18	The StoneHill Group, Inc	100.00%
19	American Recovery Service Incorporated	100.00%
20	Firstsource Solutions México, S. de R.L. de C.V	99.00%
21	Firstsource Employee Benefit Trust	100.00%
	Associates	
22	Nanobi Data and Analytics Private Limited	21.79%

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Policy on Withdrawal of Ratings](#)

[Service Sector Companies](#)

About the company

Firstsource Solutions Limited (FSL) is a leading global provider of BPO services through end to end customer life cycle management across different industry verticals i.e. Telecom & Media, BFSI and Healthcare. The Company, on a consolidated basis had 43 global delivery centers as on March 31, 2022 located in India, US, Europe, Mexico and Philippines.

FSL was promoted as ICICI Infotech Upstream Limited on December 6, 2001 by ICICI Bank Limited. In 2012-13, the RP-Sanjiv Goenka Group acquired 56.82% shares of FSL through, wholly-owned subsidiary of CESC Limited (rated CARE AA; Stable/ CARE A1+), Spen Liq PrivateLimited (SLPL). Following restructuring in the RP Sanjiv Goenka group, majority ownership of 53.66% in FSL now vests with the group. The RP-Sanjiv Goenka group has interests across diverse business sectors such as power & natural resources, infrastructure, carbon black, retail, education and media & entertainment.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	5,079.27	5,921.15	3,016.31
PBILDT	840.42	979.70	428.42
PAT	361.68	536.53	214.48
Overall gearing (times)	0.43	0.60	0.47
Interest coverage (times)	9.64	11.33	11.11

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)@		Not yet placed	-	-	50.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	351.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

@Carved out of working capital limits

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (20-Dec-21)	1)CARE A1+ (21-Dec-20) 2)CARE A1+ (06-Apr-20)	1)CARE A1+ (02-Apr-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	351.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (20-Dec-21)	1)CARE A+; Stable / CARE A1+ (21-Dec-20) 2)CARE A+; Stable / CARE A1+ (24-Apr-20) 3)CARE A+; Stable / CARE A1+ (06-Apr-20)	1)CARE A+; Stable / CARE A1+ (02-Apr-19)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (20-Dec-21)	1)CARE A1+ (21-Dec-20) 2)CARE A1+ (24-Apr-20) 3)CARE A1+ (06-Apr-20)	1)CARE A1+ (02-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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