Firstsource Solutions Limited

December 20, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	311.00	CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	40.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**351.00 (Rs. Three Hundred Fifty-One Crore Only)**		
Commercial Paper@	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**50.00 (Rs. Fifty Crore Only)**		

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

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities/instrument of Firstource 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 with improving profitability, comfortable capital structure and healthy cash accruals. The ratings also take into consideration the expected growth in the BPM industry.

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 1.60x 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 in to 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

Key Rating Strengths

Established track record with strong promoter group and experienced management

Incorporated in 2001, FSL is an integrated BPO service provider with a global footprint. FSL is a part of RP-SG 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 4 billion (Rs.296 billion) The RP-Sanjiv Goenka Group acquired 54.13% shares of FSL through Spen Liq Private Limited, a wholly owned subsidiary of CESC Limited (rated CARE AA: Stable/A1+) during FY12-13. FSL has a qualified senior and middle management team with a track record of operational excellence.

Steady operational performance

During FY21, FSL reported 24% increase in revenue y-o-y and 6% increase in net profit y-o-y. FSL continues to benefit from scale of operations and revenue diversity across verticals. FSL has created a strong market position through organic growth, supplemented by acquisitions.

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

Debt repayment and absence of large, debt-funded capex has helped FSL improves capital structure over time. Although the gearing levels exceeded over 2.00x for the past two years, (FY20 and FY21) the same is attributable to high lease liabilities, following sizeable dividend pay-out and elongation of the receivable cycle, which has now normalized.

Comfortable capital structure and debt coverage indicators

The financial risk profile of the company continues to remain comfortable aided by healthy cash accruals on the back of stable operating profitability. The capital structure remained comfortable with overall gearing at 2.20x as on March 31, 2021 (vs 2.84x as on March 31, 2020). The overall gearing deteriorated on account of adoption of AS-116 for finance lease reported at Rs.512 crore as on March 30, 2020 and which further increased to Rs.589.84 crore as on March 31, 2021. Furthermore, there are no large capex ongoing in the company. The coverage indicators have also shown an improvement in FY21 (interest coverage 9.65x vs 7.90x in FY20 and TDGCA of 2.10x vs 2.49x in FY20), however it is expected to improve in medium term with no major debt funded capex plan and repayment of the maturing debt.

Diversified revenue profile and strong client base

FSL provides BPO services mainly across three verticals: BFSI, healthcare and CMT. The verticals contributed 52.0%, 27.0% and 19% respectively to the company's revenue during FY21. 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 includes 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, 2021, the Company, on a consolidated basis had 39 global delivery centres including 13 located in India, 18 in USA, 6 in UK and 2 in Philippines. 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.

Positive Growth in Business Process Management (BPM) Industry:

Global Business Process Management (BPM) market size is expected to grow from USD8.8 billion in 2020 to USD 14.4 billion in 2025, at a CAGR of 10.5% during the forecast period. Several factors that are expected to drive the growth of the BPM market include the integration of Artificial Intelligence (AI) and Machine Learning (ML) technologies with the BPM software, need for automated business process to reduce manual error, and improved IT systems to meet customers' dynamic requirements. Industries such as manufacturing; Banking, Financial Services, and Insurance (BFSI); and telecommunications are expected to have significantly contributed to the growth of the Market.

Key Rating Weaknesses

Increasing industry competition

The market for the BPO services is rapidly evolving and continues to intensify. While FSL remains a pure-play BPM with differentiated proposition as compared to some of its competitors, it continues to compete for business with a variety of companies, which includes offshore third party BPM providers, local/onshore BPM providers in the US and Europe, BPM divisions of global IT companies and in-house captives of potential clients.

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. Furthermore, the company is also investing in its analytics division which is expected to give it an edge over its competitors.

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 FY21 from its top client which decreased from 21% in FY20. However, average tenure of the contract with the top client is long term around 19.20 years in FY21. The company's top 5 clients contributed 41% of its revenue for FY21 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 free cash balance and investment at Rs.218 crore as on September 30, 2021. FSL has Rs.390 crore of sanctioned fund-based limits in India which remain utilized to the extent of 7% for the past twelve months ending November 2021. FSL global sanctioned limits also remain utilized to the extent of 7-10% for the past twelve months ending November 2021. While the company would be open to acquisitions, ticket size is expected to be moderate. FSL has repayments (excluding lease repayments) of Rs.50 crore in remaining part of FY22 and Rs.83.75 crore in FY23 which can be comfortably met through its internal accruals

Analytical approach:

Consolidated approach as the below mentioned subsidiaries and parent have significant operational, financial and management linkages between them.

Applicable Criteria

CARE's Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Service Sector Companies
Rating Methodology: Consolidation

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 39 global delivery centers as on September 30, 2020 located in India, US, Europe, 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 56.86% (34.5% by subscribing to preferential issue of shares and the balance by secondary purchase and open offer for sale by existing investors) shares of FSL through, wholly-owned subsidiary of CESC Limited (rated CARE AA; Stable/ CARE A1+), Spen Liq PrivateLimited (SLPL). SLPL, the holding company of FSL, was amalgamated with CESC Ventures Limited (Formerly known as 'RP-SG Business Process Services Limited') and accordingly now the company is subsidiary of CESC Ventures Limited. 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1 FY22
Total operating income	4101.53	5079.96	2914.13
PBILDT	656.54	841.12	477.84
PAT	339.69	361.68	268.69
Overall gearing (times)	2.84	2.20	-
Interest coverage (times)	7.90	9.65	15.90

A: Audited
Financials are classified as per CARE standards

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3 - NA
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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	311.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	40.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (21-Dec-20) 2)CARE A1+ (06-Apr-20)	1)CARE A1+ (02-Apr-19)	1)CARE A1 (05-Apr-18)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	311.00	CARE A+; Stable / CARE A1+	-	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)	1)CARE A; Stable / CARE A1 (05-Apr-18)
3	Non-fund-based - ST-BG/LC	ST	40.00	CARE A1+	-	1)CARE A1+ (21-Dec-20) 2)CARE A1+ (24-Apr-20) 3)CARE A1+ (06-Apr-20)	1)CARE A1+ (02-Apr-19)	1)CARE A1 (05-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 **HYPERLINK "https://www.careratings.com/Bankdetails.aspx?Id=27GvVdrfBlxVepK7ns8l6g==" \o "PR Weblink5"**click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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