Firstsource Solutions Limited

December 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	351.00	CARE A+; Stable / CARE A1+	Reaffirmed
Commercial paper@	50.00	CARE A1+	Reaffirmed

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

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities/instrument of Firstsource Solutions Limited (FSL), continues to derive strength from the company's strong brand recall, and established position in the business process management (BPM) industry, especially in the overseas markets, along with its well-diversified revenue profile spread across multiple verticals and geographies. The ratings continue to derive strength from the experience and resourcefulness of its promoters, the RP Sanjiv Goenka Group. As on September 30, 2024, almost entire revenue of the company is derived from United States of America (USA) and United Kingdom (UK), with top 10 clients accounting for a share of around 48 percent. The company has a global workforce of ~32,900 employees spread across ~10 countries with majority of its workforce stationed in USA, UK, India, and Philippines.
During the past three fiscals (FY21-24, FY refers to the period from April 01 to March 31), FSL's consolidated revenue has grown at a compounded annual growth rate (CAGR) of around 8 percent (rupee-denominated growth). In FY24, FSL's revenue increased by ~5.8% on a year-on-year (Y-o-Y) basis (rupee-denominated growth) and 1.1% Y-o-Y on a constant currency (CC) basis. While the Banking & Financial Services (BFS) segment has witnessed a decline in the last two fiscals, growth in revenue was driven by the Communication, Media & Technology (CMT), healthcare, and other diversified sectors. The healthcare segment grew 4% Y-o-Y, supported by strengthened offshore capabilities and Business Process as a Service (BPaaS) solution, while the CMT segment saw 11.6% Y-o-Y growth, driven by telecom, edtech, and consumer tech client wins. Additionally, the diversified segment experienced a substantial 132.3% Y-o-Y growth, mainly due to the increasing demand for digital solutions in the energy sector.

During H1FY25 (refers to the period from April 01 to September 30), FSL has made strategic acquisitions to enhance its business operations. In Q1FY25, it acquired Quintessence Business Solutions & Services (QBSS) for ₹327 crore, which provides additional services in the US healthcare revenue cycle management (RCM) space. In Q2FY25, FSL acquired Ascensos Limited for an agreed consideration of ₹467 crore, expanding its BPM services, particularly in retail and e-commerce, and increasing its nearshore delivery capabilities. These acquisitions were funded primarily through internal accruals and align with FSL's focus on small to medium-sized acquisitions. CARE Ratings Limited (CARE Ratings) foresees the degree of risk emanating from frequent acquisitions is relatively low, as the company focuses on small ticket size acquisitions compared to its annual cash accruals.

The ratings further take into consideration the relatively less volatility in the profitability margins which have been consistently maintained in the range of 14-17% over the last few fiscals, resulting in healthy cash flow from operating activity of more than ₹600 crore (in absolute terms) annually.

Despite an increase in total debt (including lease liabilities), the company's capital structure remains strong, with total outside liabilities to tangible net worth (TOL/TNW) improving to 0.60x and overall gearing improving to 0.42x as of March 31, 2024. In H1FY25, acquisitions funded by internal accruals led to a temporary rise in working capital utilisation and moderated coverage metrics. Acquisitions are typically funded by term loans, which are repaid or prepaid within 2-3 years, leading to normalisation of coverage metrics over the medium-term period. Cash and liquid investments have consistently exceeded ₹200 crore in the last three fiscal years, with annual operating cash accruals above ₹750 crore. In H1FY25, the increase in total debt is also due to higher working capital requirements driven by increased revenues and a rise in debtor collection days. CARE Ratings expects the debt level to normalise as the business stabilises. Management has indicated plans to achieve a net debt-free position (excluding lease liabilities) within the next two years, suggesting a gradual improvement in overall gearing over the next two fiscals. Maximum overall gearing for the company over the last five fiscals has been 0.60x, which is in a comfortable range. Furthermore, TOL/TNW has also remained comfortable below unity all throughout the last five fiscals and is likely to remain so during the projected period as well.

The rating strengths are however, tempered by FSL's exposure to intense competition in the BPM industry, risk associated with high attrition rates, customer and geographical concentration risk, impact of protectionist policies by US/UK and foreign exchange

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

fluctuation risks. Any significantly large-sized acquisition in excess of ₹500 crore, leading to weakening of the coverage indicators will remain key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total debt (excl. lease) by gross cash accruals (TD/GCA) below 1.0x on a sustained basis.
- On a consolidated basis, improvement in profit after tax (PAT) margins above 10% along-with return on capital employed (ROCE) over 20% on a sustained basis.
- Current ratio greater than 1.50x on a sustained basis.

Negative factors

- Deterioration in total debt/profit before interest, lease rentals, depreciation, and taxation (PBILDT) beyond 2.50x or total debt (excl. Lease)/PBILDT beyond 1.75x on a sustained basis.
- Any large-sized debt-funded capex, mergers or acquisitions or unrelated diversification resulting in overall gearing over 0.75x on a sustained basis.
- Decline in revenues to below ₹5,500 crore, emanating from technological disruption or non-renewal of key customer contracts.
- PAT margin less than 5% on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered the consolidated approach to analyse FSL, since the subsidiaries and parent have significant operational, financial, and management linkages between them. The list of entities consolidated with FSL has been placed in Annexure-6.

Outlook: Stable

The business performance of FSL is expected to be stable given diversified revenue streams and additional business from the existing and new clients notwithstanding muted growth in the mortgage segment in FY25. The financial profile of the company remains strong on the back of healthy cash flows emanating from the operating activities.

Detailed description of key rating drivers:

Key strengths

Established track record with experienced management

FSL was promoted by ICICI Bank Ltd in 2001. In FY12, Spen Liq Pvt Ltd, a wholly owned subsidiary of CESC Ltd (part of the RP-Sanjiv Goenka group) acquired 56.82% stake in FSL to become the majority shareholder. Following restructuring in the RP Sanjiv Goenka group, majority ownership of 53.66% in FSL now vests with the group.

With presence in the international markets since long decades, FSL has established a strong footing in overseas markets reflected by over 99% of its revenue emanating from USA and UK markets. The management continues to explore options via inorganic growth with one acquisition completed in May 2024, and another in September 2024.

Steady profitability and operational performance

In FY24, the consolidated revenue from operations registered a modest growth of 5.8% Y-o-Y in rupee terms (1.1% constant currency terms) and a 21% growth Y-o-Y in H1FY25 vis-à-vis H1FY24. While the BFS segmented, has recorded a decline on a Y-o-Y basis during FY24, the same has recorded modest growth in H1FY25. This growth is attributed through strengthened sales teams, expanded client engagements, and entry into segments such as reverse mortgages, and financial crime compliance.

The healthcare segment achieved 4% Y-o-Y growth in FY24 and 33.6% Y-o-Y in H1FY25, accounting for 33% of overall revenue. The segment caters to providers (serving over 1,000 US hospitals) and payers (collaborating with seven of the top 10 US health insurance companies). Structural shifts, such as rising costs and a shift to value-based care, have shaped the industry. The acquisition of QBSS is expected to enhance offshore capabilities, expand into the Revenue Cycle Management (RCM) market, and broaden the portfolio to include individual doctors and practitioners for comprehensive service offerings.

The CMT segment saw an 11.6% Y-o-Y growth in FY24 and a 22.6% increase in H1FY25, contributing ~22% of the overall revenue. Despite challenges with a major client's offshore transition, additional business was secured, and four new clients were added. In edtech, FSL secured key contracts like Educational Testing Service (ETS) and launched a global capability center in Hyderabad for assessment operations. In consumer tech, partnerships grew through AI and localization services, underpinned by strong deal flow.

The diversified segment reported a 132.3% Y-o-Y growth in FY24, contributing 5.5% to the total revenue. This growth reflects the increasing adoption of digital solutions in utilities and energy sectors. FSL continues to see strong demand, with a 44% CAGR since FY21. Expansion with major clients in this vertical, alongside stronger performances in healthcare and CMT, helped offset the decline in BFS.

PBILDT margins improved from 14.2% in FY23 to 15.7% in FY24, driven by stronger performance in the Diversified and CMT segments. This was supported by growth in telecom, streaming, edtech, AI-driven solutions, and energy sector engagements. However, PAT margins declined by 41 bps to 8.12%, mainly due to higher interest costs from increased working capital borrowings and growing offshore operations. Management expects this impact to normalise in the coming quarters, with the finance cost structure stabilising moving forward.

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 done certain acquisitions in the past within its domain to adapt to the rapidly evolving technologies. These acquisitions have usually been done with mix of debt and equity. Currently, the overall gearing has remained stable at 0.42x as on March 31, 2024.
In Q1FY25, the company has acquired QBSS for cash consideration amounting to ₹327 crore. In Q2FY25, the company acquired Ascensos Limited, UK, for total consideration agreed of ~₹467 crore. The acquisitions were primarily funded through internal accruals, but this led to the temporary blocking of funds, which caused an increase in debt and a moderation in coverage metrics as on September 30, 2024. Additionally, the rise in working capital requirements, driven by higher revenues and slower debtor collection cycles, further impacted the overall gearing ratio. Management has indicated plans to achieve a net debt-free position within the next two fiscals, suggesting a gradual reduction in debt levels over time.
The debt coverage indicators remain strong due to size of the acquisitions being small compared to the company's GCA. Resultantly, interest coverage ratio stands at 7.04x for FY24 and total debt by PBILDT at 1.55x as on March 31, 2024. Also, the overall gearing excluding lease liabilities stands at 0.37x as on September 30, 2024, which is in comfortable range.

Diversified revenue profile and strong client base
FSL provides business process outsourcing (BPO) services mainly across three verticals: BFSI, healthcare, and CMT. The verticals contributed 35%, 36%, and 22%, respectively, to the company's revenue in H1FY25. US healthcare and US BFS business contribute to more than 60% of revenues, while the rest is accounted from the CMT and BFS business in UK. The company has over 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 USA.

Global delivery capabilities
FSL has presence across geographies and services its clients through its global delivery centres. As on March 31, 2024, the company along with its 23 subsidiaries has 40 global delivery centers of which 12 are in India, 16 in the USA, eight in the UK, three in the Philippines, and one in Mexico. The global delivery capability enables FSL to deliver wide range of services and gives the company proximity to its clients. 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.

Key weaknesses

Customer concentration risk
Although improved, FSL derived 14% of its total revenue for FY24 from its top client. However, average association with the top five clients is long term spanning over 18 years. The company's top five clients contributed 36% of its revenue for FY24 thus exposing it to customer concentration risk. Non-renewal of key customer contracts, if any were to occur, would impact the revenues of the company significantly. However, comfort is drawn from long standing association of FSL with these clients and ability to get repeat business over the years from these clients.

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 BPOs (like Hinduja Global Solutions, Genpact, WNS), BPM divisions of global IT companies (TCS, Accenture, Infosys, Wipro), Local/onshore BPM providers in the US and Europe and in-house captives of potential clients. Also, there is shared services (where-in the client themselves flip 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 it to face the

competition. Pressure from clients to cut costs through automation hurts revenue and the entry of large IT players into BPO has further intensified competition as more clients look for integrated IT-BPO deals. However, the company has an established brand name in the industry and has long relationships with its clientele which help the company to navigate the competition. Furthermore, the inherently high attrition rate in the BPO business poses few challenges on operational productivity. However, the attrition rate has improved, aided by a revised biannual appraisal and promotion cycle, with overall attrition in Q2FY25 recorded at 31% (vs. 45% offshore and 36% onshore attrition rate in Q2FY24).

Foreign exchange fluctuation risk

Since over 99% of revenue is derived from client in USA, UK, and Asia Pacific region, 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 (primarily). The company has a policy to hedge its exposure on a 12-month rolling basis through forward cover contracts and options. However, the company is still exposed to foreign exchange fluctuation risk for any unhedged exposure.

Impact of protectionist policies in developed countries

The operations remain exposed to government policies and preferences with respect to factors such as local supply, duties, protectionism stance adopted by foreign countries. To partly mitigate against this risk, the company has developed significant local presence in USA and UK. As on March 31, 2024, 64% of the employees are in locations outside India, where the revenue for the company is mainly derived.

Liquidity: Adequate

Liquidity profile remains adequate with cash and liquid investments of ₹215.8 crore as on September 30, 2024. The current ratio for the company is 0.93x as on March 31, 2024, and has consistently stayed in this range. This is due to current lease obligations and reliance on unsecured working capital borrowings (line of credit from banks). On the other hand, FSL has modest long-term debt repayments for FY25, which can be comfortably met through its internal accruals. The debt service coverage ratio (DSCR) for the company has remained comfortable and above unity.
With debtor collection days averaging ~60 days and creditor days in the range of 15-18 days result in a working capital gap, necessitating short-term borrowings to meet immediate obligations and support day-to-day operations. Consequently, working capital borrowings constitute a significant portion of total debt and are expected to rise in line with the growing scale of operations. Last 12-month average utilisation of fund-based and non-fund-based limits are at a comfortable level being 19% and 0.98%, respectively.
Till FY22, FSL has acquired entities using a mix of debt and equity funds. In H1FY25, FSL has spent around Rs. 794 crores on acquisition of companies (this amount includes a portion contingent upon fulfilment of certain predefined targets), funded largely through internal accruals.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks:

	Risk factors
Environmental	**GHG emissions: Low** • Total Scope 1 & Scope 2 GHG (greenhouse gas) emissions has been reduced by 68.97% and 7.01%, respectively (compared to FY23) due to increased use of renewable energy mix. This was also due to due to allowing remote work resulting in reduced office space, and lean GHG management implementation to improve operations and resource usage • Increasing focus towards the Science Based Targets initiative (SBTi) and target to achieve Net Zero emissions by 2050. **Energy consumption: Decreased** • Total energy consumption within the organisation, declined by 14% from 97,562 GJ in FY23 to 83,611 GJ in FY24. • All offices in UK are powered by green/ clean energy.
Social	**Gender diversity: Adequate** • Around 44.4% women in workforce (employees and workers) and 37.4% representation in key management personnel. **LTIFR: Moderate** • Lost time injury frequency rate (per 1 million person per hour worked) has been 0.19 in FY24 (vs. 0.22) for non-permanent employees. **Attrition rate: High** • The attrition rate, which is typically high in the industry, has shown improvement at FSL. Trailing 12-month attrition rate stood at 30.9% for Q2FY25 (vs. 39.8% in Q2FY24 and 32% in Q1FY25)
Governance	**Board independence: Equally balanced** • 54% of the board comprises independent directors. **Data governance risk: Moderate** • The industry is inherently exposed to risks related to cybersecurity, information security and data privacy. Adequate data governance practices with operational centres being certified with ISO 27001 (which is international standard for Information security management system). • In FY24, no reported incidents of corruption, money laundering, anti-competitive behaviour, or violations of anti-trust and monopoly laws. • Strong adherence to regulatory frameworks and governance standards.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Information Technology	Information Technology	IT - Services	IT Enabled Services

FSL is a leading global provider of BPM services through end-to-end customer life cycle management across different industry verticals, telecom & media, BFSI, and healthcare. The company, on a consolidated basis, as on March 31, 2024, has 40 global delivery centres located in India, USA, UK, Philippines and Mexico.
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 a 56.82% stake in FSL through Spen Liq Private Limited (SLPL), a wholly owned subsidiary of CESC Limited. 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)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	6,022	6,338	3,716
PBILDT	855	996	557
PAT	514	515	273
Overall gearing (times)	0.43	0.42	0.58
Interest coverage (times)	7.76	7.04	8.45

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

List of entities consolidated: Annexure-6

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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)*	-	Not yet placed	-	7 days to 365 days	50.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	351.00	CARE A+; Stable / CARE A1+

*Carved out of working capital limits

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+	1)CARE A1+ (19-Dec-22)	1)CARE A1+

						(18-Dec-23)		(20-Dec-21)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	351.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (18-Dec-23)	1)CARE A+; Stable / CARE A1+ (19-Dec-22)	1)CARE A+; Stable / CARE A1+ (20-Dec-21)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (19-Dec-22)	1)CARE A1+ (20-Dec-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated with FSL as on March 31, 2024:

Sr. No.	Name of the entity	Extent of Consolidation	Rationale for consolidation
1.	Firstsource Solutions UK Limited (FSL UK)	Full	Subsidiary
2.	Firstsource Solutions S.A. (FSL-Arg)	Full	Subsidiary
3.	Firstsource BPO Ireland Limited (FSL Ireland)	Full	Subsidiary
4.	Firstsource Dialog Solutions (Private) Limited	Full	Subsidiary
5.	Firstsource Process Management Services Limited (FPMSL)	Full	Subsidiary
6.	Firstsource Group USA, Inc. (FG US)	Full	Subsidiary
7.	Firstsource Business Process Services, LLC (FBPS)	Full	Subsidiary
8.	Firstsource Advantage LLC (FAL)	Full	Subsidiary
9.	One Advantage LLC (OAL)	Full	Subsidiary
10.	Medassist Holding LLC (MedAssist)	Full	Subsidiary
11.	Firstsource Solutions USA LLC	Full	Subsidiary
12.	Firstsource Health Plans and Healthcare Services, LLC	Full	Subsidiary
13.	Sourcepoint, Inc	Full	Subsidiary
14.	Sourcepoint Fulfillment Services, Inc.	Full	Subsidiary
15.	PatientMatters, LLC (PM)	Full	Subsidiary
16.	Medical Advocacy Services for Healthcare, Inc (MASH)	Full	Subsidiary
17.	Kramer Technologies LLC (KT)	Full	Subsidiary
18.	The StoneHill Group, Inc	Full	Subsidiary
19.	American Recovery Service Incorporated	Full	Subsidiary
20.	Firstsource Solutions México, S. de R.L. de C.V	Full	Subsidiary
21.	Firstsource Solutions Jamaica Limited	Full	Subsidiary
22.	Firstsource Employee Benefit Trust	Full	Subsidiary
23.	Nanobi Data and Analytics Private Limited (Nanobi)	Proportionate	Associate
24.	Firstsource BPO South Africa (Pty) Limited	Full	Subsidiary
25.	Firstsource Solutions Australia Pty Limited	Full	Subsidiary
26.	Quintessence Business Solutions & Services Private Limited (acquired on May 3, 2024)	Full	Subsidiary
27.	QBSS Health LLC (acquired on May 3, 2024)	Full	Subsidiary
28.	Ascensos Limited (acquired on September 23, 2024)	Full	Subsidiary
29.	Ascensos South Africa (RF) (PTY) Ltd (acquired on September 23, 2024)	Full	Subsidiary
30.	Ascensos Trinidad Limited (acquired on September 23, 2024)	Full	Subsidiary
31.	Ascensos Contact Centres Romania SRL (acquired on September 23, 2024)	Full	Subsidiary

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

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About us:
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