Firstsource Solutions Limited

April 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	147.50	CARE A+; Stable [Single A plus; Outlook: Stable]/CARE A1+ [A One plus]	Revised from CARE A/CARE A 1
Short-term Bank Facilities	132.00	CARE A1+ [A One plus]	Revised from CARE A 1
Total Facilities	**279.50 (Rupees Two Hundred Seventy Nine crore and Fifty lakh only)**		
Commercial Paper*	50.00	CARE A1+ (A One plus)	Revised from CARE A 1

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

Detailed Rationale & Key Rating Drivers

The upgrade in the ratings assigned to the bank facilities/instruments of Firstsource Solutions Limited (FSL) reflects continuous reduction in debt resulting in improvement in overall gearing and deb protection metrics. The ratings continue to derive strength from the company's strong parentage, being a part of RP-Sanjiv Goenka group, experience of the management in the business process outsourcing (BPO) industry, well-diversified revenue profile spread across multiple verticals and its strong client base with a global footprint. The ratings also take into consideration steady operating performance with improving profitability and healthy cash accruals.

The ratings however, continue to be tempered by FSL's exposure to intense competition in the Business Process Outsourcing (BPO) industry, risks associated with high attrition rates and foreign exchange fluctuation risk. FSL's ability to maintain its operating performance in the scenario of stiff competition and any debt-funded large acquisition which may put a strain on the balance sheet remain key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses

Steady operational performance and improvement in the financial risk profile: FSL has sustained healthy operating performance in this competitive BPO industry with steady increase in operating income over the years. Operating profitability has also shown improvement from 12.48% in FY17 to 13.25% in FY18 and subsequently to 13.97% in 9MFY19, on the back of various cost reduction measures coupled with continued focus on more profitable clients.

Progressive repayment of long term loans coupled with health cash accruals have led to an improvement in overall gearing from 0.49x as on March 31, 2017 to 0.29x as on March 31, 2018. Absence of any major debt funded capex plan and repayment of maturing debt is likely to keep gearing at comfortable levels in the near to medium term. Debt service coverage indicators have also improved in FY18 (interest coverage 9.35x as compared to 8.25x in FY17 and TDGCA of 1.83x as compared to 2.69 in FY17). FSL is also expected to benefit from its affiliation with the RP-SanjivGoenka group, in terms of need-based financial support.

The company also had a comfortable liquidity profile backed by low operating cycle (25 days). FSL also had free cash and bank balances of Rs.99.88 crore as on December 31, 2018 which provides additional liquidity back-up.

Diversified revenue profile and strong client base

FSL provides BPO services mainly across three verticals: telecom & media, healthcare, and BFSI. The verticals contributed 33.9%, 36.8% and 29.2% respectively to the company's revenue during FY18. The company has over 2000 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.

FSL's revenue remains well-diversified across its BFSI, healthcare and telecom, and media verticals as seen in the below table:

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Segment-wise Revenue Breakup

(% of total income)	FY14	FY15	FY16	FY17	FY18	Q3FY18	Q3FY19
Healthcare	32	36	39	36	37	37	34
Telecommunications & Media	45	43	37	32	34	33	29
BFSI	23	22	23	32	29	29	35
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Geography-wise Revenue Breakup

(% of total income)	FY14	FY15	FY16	FY17	FY18	Q3FY18	Q3FY19
North America	47	49	54	55	54	54	55
UK	36	36	38	38	44	45	44
India	9	8	6	6	3	1	1
Rest of World	8	7	2	0.9	-	-	-

Global delivery capabilities

FSL possesses necessary capabilities to service its client through its global delivery centres. As on March 31, 2018, the Company, on a consolidated basis has 38 delivery centres, including 10 located in 7 cities in India, 18 in US, 7 in UK &Europe, 2 in Philippines and 1 in Sri Lanka. 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.

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 BPO 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 BPO providers, local/onshore BPO providers in the US and Europe, BPO 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, Brazil and the Czech Republic. However, the company has an established brand in the industry and has long relationships with its clientele which will 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

The BPO industry is labour intensive industry and historically high employee attrition with the growing trend of job switching has been common in the BPO industry. FSL has also experienced high levels of attrition having an adverse impact on the company's operating efficiency and productivity, and, thus, profitability.

Customer concentration risk

FSL largest client contributed to ~28% of its total revenue in FY18 which reduced to ~25% in 9MFY19. Further, the company's top 5 clients contributed 46% of its revenue in FY18 and 41% in 9MFY19 thus, exposing it to significant client concentration risks. Although FSL is focusing towards increasing its client base but a significant portion of the total revenue from limited number of clients is expected to continue in the medium term. However, long standing relationship with these reputed clients and ability to get repeat business over the years mitigate the risk of customer concentration to an extent.

Analytical approach: CARE has considered consolidated financials of TML and its group companies on account of significant operational and financial linkages.

Applicable Criteria

[CARE's methodology for Services companies]

[Financial ratios – Non-Financial Sector](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)

About the Company
Firstsource Solutions Ltd (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 38 global delivery centers as on March 31, 2018 located in India, US, Europe, Philippines and Sri Lanka.
FSL was promoted as ICICI Infotech Upstream Ltd on December 6, 2001 by ICICI Bank Ltd. 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 Ltd. (rated CARE AA/ CARE A1+ reaffirmed on Feb 06, 2018), SpenLiq Pvt Ltd. The RP-SanjivGoenka group has interests across diverse business sectors such as power & natural resources, infrastructure, carbon black, retail, education and media & entertainment.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3557.23	3537.48
PBILDT	443.88	468.59
PAT	279.24	326.58
Overall gearing (times)	0.49	0.29
Interest coverage (times)	8.25	9.35

A: Audited
Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Ratnam Raju Nakka
Tel: 022 6754 3578
Email: ratnam.nakka@carerating.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	132.00	CARE A1 +
Fund-based/Non-fund-based-LT/ST	-	-	-	147.50	CARE A+; Stable / CARE A1+
Commercial Paper	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	50.00	CARE A1+	-	CARE A1 (05-04-18)	1)CARE A1 (23-Jan-17) 2)CARE A1 (18-Apr-16)	1)CARE A1 (15-Apr-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	147.50	CARE A+; Stable / CARE A1+	-	CARE A; stable/CARE A1 (05-04-18)	1)CARE A; Stable / CARE A1 (23-Jan-17) 2)CARE A / CARE A1 (18-Apr-16)	1)CARE A / CARE A1 (15-Apr-15)
3.	Non-fund-based - ST-BG/LC	ST	132.00	CARE A1+	-	CARE A1 (05-04-18)	1)CARE A1 (23-Jan-17) 2)CARE A1 (18-Apr-16)	1)CARE A1 (15-Apr-15)

Annexure -3: List of subsidiaries which are consolidated

Sr. No.	Name of the company
1	Firstsource Solutions UK Limited
2	Firstsource Solutions S.A
3	Firstsource BPO Ireland Limited
4	Firstsource Dialog Solutions Pvt. Ltd.
5	Firstsource Process Management Services Limited
6	Firstsource Group USA, Inc
7	Firstsource Business Process Services LLC
8	Firstsource Advantage LLC
9	One Advantage LLC
10	Medassist Holding LLC
11	Firstsource Solutions USA LLC
12	Firstsource Transaction Services LLC
13	ISGN Solutions Inc
14	ISGN Fullfillment Services Inc
15	ISGN Fullfillment Agency LLC

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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