Firstsource Solutions Limited

April 5, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term/Short-term Bank Facilities	147.50	CARE A; Stable [Single A; Outlook: Stable]/ CARE A1 [A One]	Reaffirmed
Short-term Bank Facilities	132.00	CARE A1 [A One]	Reaffirmed
Total Facilities	**279.50 (Rupees Two Hundred Seventy Nine crore and Fifty lakhs only)**		
Commercial Paper*	50.00	CARE A1 (A One)	Reaffirmed

**carved out of sanctioned working capital limits.*

Rating Rationale

The ratings assigned to the bank facilities/instruments of Firstsource Solutions Limited (FSL) 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 in FY17 (refers to the period April 1 to March 31), along with improvement in capital structure on account of healthy cash accruals and reduction in total debt leading to consistent improvement in financial risk profile.

The rating strengths, 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 will put a strain on the balance sheet remains the key rating sensitivity.

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

Detailed description of the key rating drivers

Key Rating Strengths

Steady operational performance and improvement in the financial profile

FSL has maintained its performance in this competitive BPO industry with total operating income increasing at a 10% in FY17, moreover the profitability margin is at same level of ~12.50%, for 9MFY18 the PBILDT margin stood at 13.00%. Various cost reduction measures has helped to improve the margins. The company continued to focus on more profitable clients and is continuously increasing its operating efficiency.

The capital structure continued to improve and stood comfortable with overall gearing at 0.46x as on March 31, 2017 as compared to 0.41x as on March 31, 2016. The debt service coverage indicators have also improved in FY17 (interest coverage 8.25x as compared to 6.59x in FY16 and TDGCA of 2.03x as compared to 2.4 in FY16), and is further expected to improve in medium term with no major debt funded capex plan and repayment of the maturing debt. FSL is also expected to benefit from its affiliation with the RP-Sanjiv Goenka group, in terms of need-based financial support.

The company also had a comfortable liquidity profile backed by low operating cycle (21 days). FSL also has free cash and bank balances of Rs.135 crore as on December 30, 2017 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 32.2%, 35.8% and 31.8% respectively to the company's revenue during FY17. 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:

Segment-wise Revenue Breakup

(% of total income)	FY13	FY14	FY15	FY16	FY17	Q3FY17	Q3FY18
Healthcare	32	32	36	39	36	36	37
Telecommunications & Media	44	45	43	37	32	33	33
BFSI	23	23	22	23	32	31	29
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Geography-wise Revenue Breakup

(% of total income)	FY13	FY14	FY15	FY16	FY17	Q3FY17	Q3FY18
North America	46	47	49	54	55	56	54
UK	34	36	36	38	38	38	45
India	11	9	8	6	6	6	1
Rest of World	9	8	7	2	0.9	0.6	-

Global delivery capabilities

FSL possesses necessary capabilities to service its client through its global delivery centres. As on March 30, 2017, the Company, on a consolidated basis has 48 delivery centres, including 22 located in 16 cities in India, 16 in US, 6 in UK &Europe, 3 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.

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 derived 22 % of its total revenue from its top client which is equivalent to FY16, moreover it has changed to 29.2% in Q3FY18 of FY1 as against 23.5% in Q3FY17 The company's top 5 clients contributed 43% of its revenue for FY17 (as compared to 44.3% for FY16). 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: Consolidated

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 verticals contributed 32.2%, 31.8% and 35.8% respectively to the company's revenue during FY17. The Company, on a consolidated basis had 48 global delivery centers as on Sept 30, 2017 located in India, US, Europe, Philippines.

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.

Total Operating Income has increased to Rs. 3557 crore in FY17 as against Rs. 3219 crore grew by 10% and PBILTDA has improved by 11% in FY17 stands at Rs.444 crore as compare to Rs. 401 crore in FY16.

Brief Financials (Rs. crore)- Consolidated	FY16 (A)	FY17 (A)
Total operating income	3,219	3,557
PBILDT	401	444
PAT	260.93	279.24
Overall gearing (times)	0.52	0.46

Interest coverage (times)	6.59	8.25

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.*

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

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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	-	-	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	-	-	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	-	-	1)CARE A1 (23-Jan-17) 2)CARE A1 (18-Apr-16)	1)CARE A1 (15-Apr-15)

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