Firstsource Solutions Limited

December 21, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	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)**		

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

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 client base with a global footprint. The ratings also take into consideration steady operating performance with improving profitability, comfortable capital structure; albeit some deterioration as on March 31, 2020 owing to adoption of AS116 and healthy cash accruals. The ratings also take into consideration the expected positive growth in 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.

Key Rating Sensitivities
Positives

- 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

Negatives

- 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
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 include 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 USD4 billion (Rs.296billion) 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

FSL's FY20 consolidated TOI grew by 7.12% on a y-o-y basis to Rs.4,102 crore (vs Rs.3,829 crore in FY19) primarily on account of new business contracts coupled with growth in the BFSI (US and UK), Healthcare provider and utility segments. The profitability levels and margins have improved significantly over the past three years. PBILDT in absolute terms improved from Rs.471.34 crore in FY18 to Rs.656.54 crore in FY20. The PBILDT margin also improved from 13.32% in FY18 to 16.01% in FY20. The improved profitability margins was mainly attributable to rationalization of employee cost and benefits from implementing Artificial Intelligence (AI) and automation.

Comfortable capital structure and debt coverage indicators; albeit some deterioration as on March 31, 2020 owing recognition of finance lease with adoption of AS116

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 deteriorated marginally but remained comfortable with overall gearing at 0.50x as on March 31, 2020 (vs 0.21x as on March 31, 2019). The overall gearing deteriorated on account of adoption of AS-116 for finance lease reported at Rs.512crore as on March 30, 2020 and which further increased to Rs.523crore as on September 30, 2020. Furthermore, there are no large capex ongoing in the company. The coverage indicators have also deteriorated in FY20 (interest coverage 7.90x vs 12.02x in FY19 and TDGCA of 2.49x vs 1.19 in FY19), 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, telecom & media, and healthcare. The verticals contributed 41.0%, 23.0% and 33% respectively to the company's revenue during FY20. 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.

Global delivery capabilities

FSL has presence across geographies and services its clients through its global delivery centres. As on March 31, 2020, the Company, on a consolidated basis had 39 global delivery centres including 11 located in 7 cities in India, 20 in US, 6 in UK &Europe, 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 brandname 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

FSL derived 21 % of its total revenue for FY20 from its top client which decreased from 25% in FY19. However, average tenure of the contract with the top client is long term around 18.7 years. The company's top 5 clients contributed 41% of its revenue for FY20 (as compared to 41% for FY19) 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 Analysis: Strong

Liquidity is marked by strong accruals of Rs.551 crore during FY20 against negligible repayment obligations. With a gearing of 0.50x as on March 31, 2020, the company has sufficient headroom, to raise additional debt for its capex. Around 95% of the bank limits in India are unutilized and are more than adequate to meet its incremental working capital needs over the next one year. FSL also has free cash and bank balances of Rs.235 crore as on September 30, 2020 which provides additional liquidity back-up. The company has not availed any moratorium for the period March to August 2020 as per the RBI directives.

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 given in Annexure-3

Applicable Criteria

CARE's Policy on Default Recognition
Short-term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology: Service Sector Companies
Liquidity Analysis of Non-Financial Sector Entities

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)	FY19 (A)	FY20 (A)
Total operating income	3,829	4101.53
PBILDT	552	656.54
PAT	378	339.69
Overall gearing (times)	0.21	0.50
Interest coverage (times)	12.02	7.90

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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
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)	-	-	7-364 days	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	1)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+ (24-Apr-20) 2)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+ (24-Apr-20) 2)CARE A1+ (06-Apr-20)	1)CARE A1+ (02-Apr-19)	1)CARE A1 (05-Apr-18)	-

Annexure-3: Details of the subsidiary and associate company included for consolidated approach:

Sl. No.	Name of the Company	% of Holding as on March 31, 2020
	Subsidiaries	
1.	Firstsource Process Management Services Limited	100.00
2.	Firstsource Solutions UK Limited	100.00
3.	Firstsource Solutions S.A.	99.98
4.	Firstsource Group USA, Inc.	100.00
5.	Firstsource Business Process Services, LLC	100.00
6.	Sourcepoint, Inc.	100.00
7.	Sourcepoint Fulfillment Services, Inc.	100.00
8.	ISGN Fulfillment Agency, LLC	100.00
9.	Firstsource Advantage LLC	100.00
10.	One Advantage LLC	100.00
11.	MedAssist Holdings LLC	100.00
12.	Firstsource Solutions USA, LLC	100.00
13.	Firstsource Heath Plan Services LLC#	100.00
14.	Firstsource BPO Ireland Limited	100.00
15.	Firstsource Dialog Solutions Pvt. Ltd.	74.00
16.	Firstsource Employee Benefit Trust	100.00
	Associates	
17.	Nanobi Data and Analytics Private Limited	21.79

The name of Firstsource Transaction Services LLC was renamed as Firstsource Heath Plan Services LLC w.e.f. October 08, 2020

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

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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