Firstsource Solutions (FIRSOU)

ICICI Direct

CMP: 285	Target ₹ 340 (19%)	Target Period: 12 months	BUY

August 7, 2026

One-offs led PAT decline; Strong pipeline & deal wins reinforce growth outlook...

About the stock: Firstsource Solutions (FSL) provides business process services to BFSI, communication, media, tech & healthcare. It has 200+ global clients, including several Fortune-500 & FTSE-100 companies.

Q1FY27 performance: Revenues came at US$288 million, up 1.8% QoQ/11.2% YoY in US$ terms (up 2.2% QoQ/12.3% YoY CC). EBIT margin expanded to 12.4%, up ~20 bps QoQ/~110 bps YoY. Reported PAT stood at ₹165.9 crore, down 19.2% QoQ/2% YoY impacted by ₹71.7 crore of exceptional items relating to i) ₹35.7 crore provision for estimated non-recoverable dues following the termination of a healthcare BPaaS client contract, (ii) ₹28.4 crore indemnification for a regulatory penalty payable to a healthcare segment client due to contractual non-fulfilment, and (iii) ₹7.6 crore fair value adjustment on contingent consideration related to an earlier acquisition

Investment Rationale:

- Record deal momentum and robust pipeline provide strong earnings visibility: The company continues to demonstrate healthy execution with its sixth consecutive quarter of 4 or more large deal wins, highest ACV intake in the last 4 quarters and a deal pipeline exceeding US$1 billion. Despite the wind-down of a healthcare BPaaS engagement that was expected to contribute 1–1.5% to FY27 growth, **management reaffirmed its 10–13% CC (~9.5% organic) revenue growth guidance for FY27**, supported by add on work from the same client, strong deal pipeline, recent large deals ramp-up and continued new logo additions.. **We expect US$ revenue to grow at CAGR of 10.2% over FY26-28E.**

- Margin expansion story remains intact: EBIT margin expansion, was driven by delivery optimization, AI-led productivity gains, right-shoring and disciplined execution. **Management has reiterated its FY27 EBIT margin guidance of 12.25–12.75% and with 14–15% EBIT margin target over the next two to three years** despite ongoing investments in AI capabilities, new growth engines and strategic partnerships. We believe improving operating leverage and increasing adoption of AI-led delivery models should continue to support steady margin expansion. **We have baked in EBIT margins of 12.4%/12.6% for FY27E/FY28E.**

- **AI-led transformation and expanding wallet share support sustainable above-industry growth**: FSL continues to strengthen its positioning as an AI-first, outcome-based business transformation partner through its *Intelligence That Operates* strategy and Kairos platform. Strong traction in intelligent operations, healthcare revenue cycle management, financial crime, collections and customer experience, coupled with deeper relationships with hyperscalers and AI ecosystem partners, is expanding wallet share across existing clients. On the back of this the management expects to deliver top decile growth in the industry.

Rating and Target Price: We believe execution is likely going to be towards the mid to lower end of the guidance, which we had already built in earlier, in our numbers as well. Thus, we maintain **BUY rating, with a target price of ₹340; valuing it at 21x P/E on FY28E EPS.**

firstsource Stay Ahead

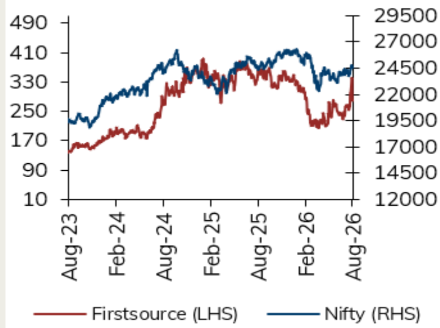
Particulars

Particular	Amount
Market Cap (₹ Crore)	19,391
Total Debt (₹ Crore)	1,937
Cash (₹ Crore)	319
EV (₹ Crore)	21,010
52 week H/L	381/ 202
Equity capital	697.0
Face value	10.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	54	54	54	54
FII	9	9	9	8
DII	25	25	25	25
Public	12	12	12	13

Price Chart



Key risks

- Delayed recovery for the exceptional items recorded this quarter;
- Slower than expected pipeline growth and deal conversion.

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY24	FY25	FY26	5 year CAGR (FY21-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
Net Sales	6,336	7,980	9,556	13.5%	11,195	12,288	13.4%
EBITDA	956	1,208	1,556	14.3%	1,883	2,101	16.2%
EBITDA Margins (%)	15.1	15.1	16.3		16.8	17.1	
Net Profit	515	594	674	13.3%	908	1,125	29.2%
EPS (₹)	7.3	8.5	9.6		12.9	16.0	
P/E	37.8	32.7	28.9		21.4	17.3	
RoNW (%)	13.9	14.5	15.4		18.6	20.4	
RoCE (%)	14.0	13.2	14.9		17.8	18.8	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** FSL reported a revenue growth of 1.8% QoQ/11.2% YoY in US$ terms (up 2.2% QoQ/12.3% YoY CC) to US$ 288 mn. In rupee terms revenue grew 5.5% QoQ/22.9% YoY to ₹2,724.9 crore. Management highlighted this was also the ninth consecutive quarter of double-digit YoY revenue growth.

- **Geography performance:** Geography wise on a QoQ basis, US (66% of the mix) de-grew by 0.6% while UK/EMEA (32% of the mix) was up 5.4%, led by higher offshore and nearshore adoption.

  – Management expects Europe to continue improving supported by healthy deal conversions and South Africa-led delivery expansion, while also incubating new growth opportunities across Canada and Australia.

- **Segment performance:** Segment wise on a QoQ basis, growth was led by CMT (21% of the mix) and BFSI (33% of the mix) which grew by 5.3%, and 4.9% while Healthcare (32% of the mix) and Others – utilities and retail (13% of the mix) and declined by 2.4% and 0.5%.

  – **BFSI:** Grew 5% QoQ/14% YoY in CC terms with five new logo additions. Demand remained strong across intelligent operations, financial crime, compliance, collections and AI-enabled servicing, with one of the strongest deal pipelines in recent quarters.

  – **Healthcare:** Declined 2% QoQ but grew 11% YoY in CC terms due to program timing effects and wind-down of one BPaaS engagement following a client leadership change. **Management highlighted this as an isolated event, with the client relationship continuing to expand and healthcare remaining a key strategic growth vertical supported by strong AI-led RCM demand and healthy deal pipeline**.

  – **CMT:** Grew 9% QoQ/6% YoY in CC terms despite project timing volatility. Management expects growth to improve as program transitions conclude, supported by increasing AI-led opportunities across telecom, media and technology clients.

  – **Others (Utilities and Retail):** Grew 27% YoY and remained flat sequentially. Healthy pipeline, cross-selling opportunities through Pastdue Credit and seasonal normalization are expected to support improved momentum going ahead.

- **Margin performance:** EBIT margin expanded to 12.4%, up ~20 bps QoQ/~110 bps YoY, marking the seventh consecutive quarter of margin expansion. Reported PAT stood at ₹165.9 crore, down 19.2% QoQ/2% YoY, impacted by ₹71.7 crore of exceptional items relating to i) ₹35.7 crore provision for estimated non-recoverable dues following the termination of a healthcare BPaaS client contract owing to leadership change at the client side, (ii) ₹28.4 crore indemnification for a regulatory penalty payable to a customer (healthcare segment client) due to contractual non-fulfilment, and (iii) ₹7.6 crore fair value adjustment on contingent consideration related to an earlier acquisition. Both (i) and (ii) are largely recoverable and non-recurring in nature.

- **Outlook: Management reaffirmed its FY27 guidance of 10–13% CC revenue growth and 12.25–12.75% EBIT margin,** despite the wind-down of a healthcare BPaaS engagement that was expected to contribute 1–1.5% growth, citing add on work from the same client, its strongest deal pipeline in the last four quarters and faster ramp-up of recent large deals. **It also expects H2FY27 to be stronger as recent wins ramp over the next quarter. On the margins front, management reiterated its long-term margin expansion trajectory towards 14–15% EBIT margins over the next 2–3 years.**

- **Deal wins, new logos and Pipeline:** It won 4 large deals (ACV > $5 million) and added 12 new logos, including 3 strategic logos (potential of at least a $5 million revenue run-rate annually).

- **Attrition and employee addition:** The headcount increased by 670 QoQ to 36,875 employees. The attrition stood at 33.1%, up ~330 bps QoQ.

Exhibit 1: Quarter Performance

₹ crore	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
Revenue	2,724.9	2,217.7	22.9	2,583.5	5.5	- Revenue grew by 2.2% QoQ/12.3% YoY in CC terms - Management has maintained FY27 CC revenue growth guidance of 10-13% (~9.5% organic)
Employee expenses	1,531.6	1,320.7	17.6	1,476.6	4.1	
Gross Margin	1,193.3	897.0	33.0	1,106.8	7.8	
Gross margin (%)	43.8	40.4	335bps	42.8	95bps	
SG&A expenses	742.0	549.9	34.9	676.4	9.7	
EBITDA	451.3	347.1	30.0	430.4	4.9	
EBITDA Margin (%)	16.6	15.7	91bps	16.7	-10bps	
Depreciation & amortisation	114.6	97.2	17.9	116.1	-1.2	
EBIT	336.7	249.8	34.8	314.3	7.1	
EBIT Margin (%)	12.4	11.3	109bps	12.2	19bps	On the margins front, the management expects 50-75 bps expansion every year and has maintained a guidance of 12.25–12.75% EBIT margins for FY27
Other income (less interest)	-45.6	-36.6	24.7	-53.7	-15.0	
PBT	219.3	213.2	2.9	260.6	-15.8	
Tax paid	53.4	43.9	21.7	55.4	-3.5	
PAT	165.9	169.3	-2.0	205.2	-19.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY27E			FY28E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	1,195	1,193	-0.2	1,316	1,313	-0.2
Revenue	11,073	11,195	1.1	12,119	12,288	1.4
EBIT	1,373	1,387	1.0	1,527	1,548	1.4
EBIT Margin (%)	12.4	12.4	-1bps	12.6	12.6	0bps
PAT	973	908	-6.6	1,115	1,125	0.9
Diluted EPS (₹)	13.9	12.9	-6.6	15.9	16.0	0.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement		₹ crore	
(Year-end March)	FY26	FY27E	FY28E
Total Revenues	**9,556**	**11,195**	**12,288**
Growth (%)	19.7	17.1	9.8
Employee expenses	5,590	6,487	7,189
Other Expenses	2,410	2,826	2,998
EBITDA	**1,556**	**1,883**	**2,101**
Growth (%)	28.9	21.0	11.6
Depreciation & Amortization	434	496	553
Other Income	7	15	16
Interest	181	172	140
PBT before Exceptional Items	850	1,159	1,424
Growth (%)	14.7	36.3	22.9
Tax	175	251	299
PAT before Excp Items	674	908	1,125
Exceptional items			
PAT before MI	674	908	1,125
Minority Int & Pft. from asso.	-	-	-
PAT	**674**	**908**	**1,125**
Growth (%)	13.5	34.6	23.9
EPS	9.6	12.9	16.0
EPS (Growth %)	13.5	34.6	23.9

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore	
(Year-end March)	FY26	FY27E	FY28E
Profit before Tax	**850**	**1,159**	**1,424**
Dep & Amortization	434	496	553
WC changes	(308)	(202)	(134)
Other non cash adju.	238	(94)	(175)
CF from operations	**1,214**	**1,359**	**1,668**
Capital expenditure	(196)	(112)	(123)
∆ in investments	(10)	-	-
Other investing cash flow	4	15	16
CF from Inv Activities	**(452)**	**(97)**	**(107)**
Issue of equity	(50)	-	-
∆ in debt funds	202	(200)	(200)
Dividends paid	(380)	(409)	(506)
Other financing cash flow	(179)	(172)	(140)
CF from Fin Activities	**(667)**	**(873)**	**(939)**
∆ in cash and cash bank	95	388	622
Effect of exchange rate changes			
Opening cash	167	269	658
Closing cash	**269**	**658**	**1,279**

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet		₹ crore	
(Year-end March)	FY26	FY27E	FY28E
Equity	697	697	697
Reserves & Surplus	3,688	4,187	4,806
Networth	4,385	4,884	5,503
Minority Interest	0	0	0
LT liabilties & provisions	1,267	1,267	1,267
Total Debt	1,937	1,737	1,537
Source of funds	**7,589**	**7,889**	**8,308**
Net fixed assets	1,166	875	538
CWIP	30	30	30
Goodwill	4,266	4,266	4,266
Other non current assets	1,096	1,180	1,235
Loans and advances	-	-	-
Current Investments	50	50	50
Debtors	2,079	2,423	2,653
Cash & Cash equivalents	269	658	1,279
Other current assets	364	425	465
Trade payables	558	650	712
Current liabilities	1,040	1,213	1,328
Provisions	132	154	169
Application of funds	**7,589**	**7,889**	**8,308**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios			
(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
EPS-diluted	9.6	12.9	16.0
DPS	4.3	5.8	7.2
BV	64.4	71.8	80.9
Operating Ratios (%)			
EBITDA Margin	16.3	16.8	17.1
PBT Margin	8.9	10.3	11.6
PAT Margin	7.1	8.1	9.2
Return Ratios (%)			
RoNW	15.4	18.6	20.4
RoCE	14.9	17.8	18.8
Valuation Ratios (x)			
P/E	28.8	21.4	17.2
EV / EBITDA	13.5	10.8	9.3
Price to Book Value	4.4	4.0	3.5
EV / Net Sales	2.2	1.8	1.6
Mcap / Net Sales	2.0	1.7	1.6
Turnover Ratios			
Debtor days	79	79	79
Creditors days	21	21	21
Solvency Ratios			
Total Debt / Equity	0.4	0.4	0.3
Current Ratio	1.4	1.4	1.4
Quick Ratio	1.4	1.4	1.4
Net Debt / EBITDA	1.0	0.5	0.1

Source: Company, ICICI Direct Research

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