Firstsource Solutions (FIRSOU)

CMP: 306 | Target ₹ 360 (18%) | Target Period: 12 months | BUY

October 30, 2026

Sustained deal momentum; robust outlook maintained!

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.

Q2FY27 performance: Revenues came at US$288 million, US$296 mn, up 2.8% QoQ/11.7% YoY (up 2.0% QoQ CC/12.3% YoY CC). EBIT margin stood at 12.5%, up ~10 bps QoQ/~100 bps YoY. PAT stood at ₹232.4 crore, up 40% QoQ/30.9% YoY.

Investment Rationale:

- **Strong growth visibility backed by sustained deal momentum:** FSL continues to maintain strong growth trajectory with healthy sequential revenue growth, and H1FY27 CC growth at 12.3%. **Management raised the lower end of FY27 revenue growth guidance to 10.5%, retaining the 10.5–13% YoY CC range (vs 10-13% earlier),** supported by large deals ramping as planned and its strongest-ever pipeline. The company signed 4 large deals and added 17 new logos, including 6 strategic logos. Its base of US$5mn-plus clients increased by 6 QoQ to 51, strengthening medium-term revenue visibility and account depth. **Management confidence in a stronger H2 is supported by large deals ramping as planned, a healthy pipeline described as strongest ever & improving client additions. We expect US$ revenue to grow at CAGR of 15.2% over FY26-28E.**
- **Sustained margin expansion supported by multiple operational levers:** FSL has delivered 8 consecutive quarters of sequential EBIT margin expansion, with Q2FY27 margin rising 100 bps YoY to 12.5%, despite annual wage increments and onboarding over 3,000 employees ahead of revenue. **Management retained FY27 margin guidance of 12.25–12.75% and expects 50–75 bps annual improvement over the next couple of years, targeting a 14–15% steady-state range.** Right-shoring, AI-led productivity, process excellence, pricing discipline and facility optimisation provide multiple levers for margin expansion. **Thus, we bake in EBIT margins of 12.5% and 12.9% in FY27E and FY28E.**
- **AI-led productization drives differentiation and expands addressable opportunity: FSL is transitioning from traditional outsourcing towards productized, AI-enabled services through Kairos, its AI-native operating system.** Domain-specific knowledge, repeatable workflows, intelligent context and governed autonomy are designed to help scale solutions across clients while retaining human oversight in regulated processes. **As per the management, more than 50% of revenue is already non-linear, providing a base to expand platform-led, outcome-linked and value-based engagements.** Increasing client demand for AI-led transformation across BFS, healthcare and customer experience creates an opportunity to deepen relationships and expand wallet share.

Rating and Target Price: Given strong deal momentum, improving revenue visibility and sustained QoQ margin expansion, **we maintain our BUY rating, with a target price of ₹360; valuing it at 21x P/E on FY28E EPS.**

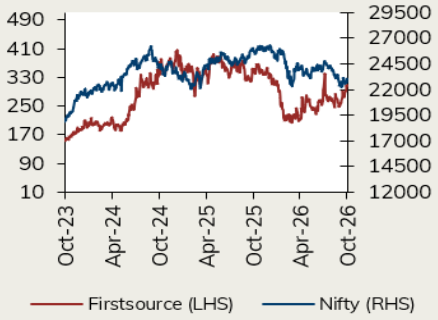
Particulars

Particular	Amount
Market Cap (₹ Crore)	20,820
Total Debt (₹ Crore)	1,937
Cash (₹ Crore)	319
EV (₹ Crore)	22,438
52 week H/L	371/202
Equity capital	697.0
Face value	10.0

Shareholding pattern

	Dec-25	Mar-26	Jun-26	Sep-26
Promoters	54	54	54	54
FII	9	9	8	7
DII	25	25	25	27
Other	12	12	13	12

Price Chart



Key risks

- Slower than expected revenue and margin growth;
- Slower than expected pipeline growth and deal conversion.

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma
anjini.sharma@icicisecurities.com

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%	11,421	12,691	15.2%
EBITDA	956	1,208	1,556	14.3%	1,908	2,157	17.7%
EBITDA Margins (%)	15.1	15.1	16.3		16.7	17.0	
Net Profit	515	594	674	13.3%	920	1,195	33.1%
EPS (₹)	7.3	8.5	9.6		13.1	17.0	
P/E	40.4	35.0	30.9		22.6	17.4	
RoNW (%)	13.9	14.5	15.4		18.8	21.5	
RoCE (%)	14.0	13.2	14.9		18.1	19.8	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** FSL reported revenue growth of 2.8% QoQ/11.7% YoY in US$ terms (up 2% QoQ/12.3% YoY in CC terms) to US$296 mn. In rupee terms, revenue grew 3.7% QoQ/22.2% YoY to ₹2,825.6 crore. **For H1FY27, revenue grew 12.3% YoY in CC terms.**
- **Geography performance:** Geography-wise on a QoQ basis in US$ terms North America (65.6% of the mix) and Europe, Middle East & Africa (32.7% of the mix) grew 1.5% and 6%; Australia registered 50% YoY growth
- **Vertical performance:** Vertical-wise on a QoQ basis in US$ terms, BFS (35.5% of the mix) and CMT (20.6% of the mix) grew 9.9% and 2.8%, while Healthcare (31.6% of the mix) and Diverse Industries (12.3% of the mix) declined 1.6% and 4.2%.
  - **BFS:** Grew 9% QoQ/19% YoY in CC terms, with nine new logo additions. **Growth was broad-based, supported by continued demand across collections, customer servicing, financial crime and compliance.** The company also witnessed strong execution of a large BFS engagement won in previous quarters, with headcount additions supporting delivery commitments.
  - **Healthcare:** Declined 2% QoQ but grew 5% YoY in CC terms, with 4 new logo additions. Performance was impacted by timing of payer-program ramps and transitions, alongside the earlier wind-down of a healthcare BPaaS engagement. **Management indicated that some of these challenges are largely behind the company, while AI-led revenue cycle management, voice AI and denials solutions continue to gain traction across payer and provider markets**.
- **Margin performance:** EBIT margin stood at 12.5%, up ~10 bps QoQ/~100 bps YoY, marking the eighth consecutive quarter of sequential margin expansion. PAT stood at ₹232.4 crore, up 40% QoQ/30.9% YoY (up 29.7% YoY/4.8% QoQ on a normalized basis, excluding Q1FY27 exceptional items of ₹56.3 crore (net of tax)).
- **Outlook: Management raised the lower end of FY27 revenue growth guidance to 10.5%, retaining the 10.5–13% YoY CC range (vs 10-13% earlier), while reaffirming EBIT margin guidance of 12.25–12.75%. Management expects H2 to be stronger than H1, supported by ramp-up of large deals signed over the last few quarters, continued new logo additions and a healthy pipeline. It reiterated its medium-term EBIT margin target of 14–15%, with an expected annual improvement of 50–75 bps over the next couple of years**
- **Deal wins, new logos and pipeline:** FSL won 4 large deals (ACV>US$5 mn), including 2 from new logos. It added 17 new logos, including 6 strategic logos (potential of ≥US$5 mn annual revenue run-rate). **Management indicated that the deal pipeline is at its strongest-ever level, providing healthy medium-term growth visibility.**
- **Attrition and employee addition:** Headcount increased by 3,062 QoQ to 39,937, primarily driven by the transition of associates from a major banking client and program ramp-ups, with India and the Philippines accounting for over 85% of additions. Voluntary attrition stood stable at 28.4%.

Exhibit 1: Quarter Performance

₹ crore	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
Revenue	2,825.6	2,312.2	22.2	2,724.9	3.7	- Revenue grew by 2% QoQ/12.3% YoY in CC terms - Management has rasied lower end of FY27 CC revenue growth guidance by 50 bps to 10.5-13% (vs 10-13% earlier)
Employee expenses	1,578.6	1,361.8	17.5	1,531.6	3.4	
Gross Margin	1,247.0	950.4	31.2	1,193.3	4.5	
Gross margin (%)	44.1	41.1	303 bps	43.8	34 bps	
SG&A expenses	776.5	574.4	35.2	742.0	4.6	
EBITDA	470.5	376.0	25.1	451.3	4.3	
EBITDA Margin (%)	16.7	16.3	39 bps	16.6	9 bps	
Depreciation & amortisation	118.4	109.6	8.1	114.6	3.3	
EBIT	352.1	266.5	32.1	336.7	4.6	
EBIT Margin (%)	12.5	11.5	94 bps	12.4	11 bps	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)	-52.8	-44.0	19.8	-45.6	15.6	
PBT	299.4	222.4	34.6	291.0	2.9	
Tax paid	66.9	44.8	49.3	53.4	25.2	
PAT	232.4	177.6	30.9	165.9	40.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY27E			FY28E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	1,193	1,201	0.7	1,313	1,334	1.7
Revenue	11,195	11,421	2.0	12,288	12,691	3.3
EBIT	1,387	1,423	2.6	1,548	1,637	5.7
EBIT Margin (%)	12.4	12.5	7 bps	12.6	12.9	30 bps
PAT	908	920	1.3	1,125	1,195	6.2
Diluted EPS (₹)	12.9	13.1	1.3	16.0	17.0	6.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Total Revenues	**9,556**	**11,421**	**12,691**
Growth (%)	19.7	19.5	11.1
Employee expenses	5,590	6,398	7,107
Other Expenses	2,410	3,115	3,427
EBITDA	**1,556**	**1,908**	**2,157**
Growth (%)	28.9	22.6	13.1
Depreciation & Amortization	434	485	520
Other Income	7	10	16
Interest	181	183	140
PBT before Exceptional Items	850	1,178	1,513
Growth (%)	14.7	38.7	28.4
Tax	175	259	318
PAT before Excp Items	674	920	1,195
Exceptional items			
PAT before MI	674	920	1,195
Minority Int & Pft. from asso.	-	-	-
PAT	**674**	**920**	**1,195**
Growth (%)	13.5	36.4	30.0
EPS	9.6	13.1	17.0
EPS (Growth %)	13.5	36.4	30.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Profit before Tax	**850**	**1,178**	**1,513**
Dep & Amortization	434	485	520
WC changes	(308)	(231)	(156)
Other non cash adju.	238	(86)	(194)
CF from operations	**1,214**	**1,346**	**1,684**
Capital expenditure	(196)	(114)	(127)
Δ in investments	(10)	-	-
Other investing cash flow	4	10	16
CF from Inv Activities	**(452)**	**(104)**	**(111)**
Issue of equity	(50)	-	-
Δ in debt funds	202	(200)	(200)
Dividends paid	(380)	(414)	(538)
Other financing cash flow	(179)	(183)	(140)
CF from Fin Activities	**(667)**	**(890)**	**(971)**
Δ in cash and cash bank	95	352	602
Effect of exchange rate changes			
Opening cash	167	269	622
Closing cash	**269**	**622**	**1,224**

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Equity	697	697	697
Reserves & Surplus	3,688	4,193	4,851
Networth	4,385	4,890	5,548
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**	**7,895**	**8,353**
Net fixed assets	1,166	888	588
CWIP	30	30	30
Goodwill	4,266	4,266	4,266
Other non current assets	1,096	1,192	1,257
Loans and advances	-	-	-
Current Investments	50	50	50
Debtors	2,079	2,474	2,740
Cash & Cash equivalents	269	622	1,224
Other current assets	364	434	480
Trade payables	558	664	735
Current liabilities	1,040	1,238	1,371
Provisions	132	158	175
Application of funds	**7,589**	**7,895**	**8,353**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios			
(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
EPS-diluted	9.6	13.1	17.0
DPS	4.3	5.9	7.7
BV	64.4	71.9	81.5
Operating Ratios (%)			
EBITDA Margin	16.3	16.7	17.0
PBT Margin	8.9	10.3	11.9
PAT Margin	7.1	8.1	9.4
Return Ratios (%)			
RoNW	15.4	18.8	21.5
RoCE	14.9	18.1	19.8
Valuation Ratios (x)			
P/E	30.9	22.6	17.4
EV / EBITDA	14.4	11.5	9.8
Price to Book Value	4.7	4.3	3.8
EV / Net Sales	2.3	1.9	1.7
Mcap / Net Sales	2.2	1.8	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	0.6	0.1

Source: Company, ICICI Direct Research

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Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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