



To,
National Stock Exchange of India Limited (stock code: "FSL")
Exchange Plaza,
Plot no. C/1, G Block,
Bandra-Kurla Complex,
Bandra (East)
Mumbai - 400 051.

To,
BSE Limited (stock code: 532809)
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

Dear Madam/ Sir,

Sub: CRISIL Ratings Upgrade

We wish to inform you that CRISIL has upgraded rating of Firstsource Solutions Limited as mentioned herein below:

Long Term Rating	CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')
Short Term Rating	CRISIL A1 (Upgraded from 'CRISIL A2+')

We are enclosing letter Rating Rationale document issued by CRISIL.

We request you to take the above on record.

Thanking you,

For **Firstsource Solutions Limited**


Pooja Nambiar
Company Secretary & Compliance Officer

Ratings



Rating Rationale

July 25, 2018 | Mumbai

Firstsource Solutions Limited

Ratings upgraded to 'CRISIL A/Stable/CRISIL A1'

Rating Action

Total Bank Loan Facilities Rated	Rs.470 Crore
Long Term Rating	CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')
Short Term Rating	CRISIL A1 (Upgraded from 'CRISIL A2+')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the bank facilities of Firstsource Solutions Limited (FSL) to '**CRISIL A/Stable/CRISIL A1**' from '**CRISIL A-/Stable/CRISIL A2+**'.

The upgrade reflects steady reduction in FSL's debt leading to sustained improvement in financial risk profile, and steady operating performance with improving profitability. Long-term debt and total debt were at Rs 315 crore and Rs 692 crore, respectively, as on March 31, 2018, against Rs 713 crore and Rs 941 crore, respectively, as on March 31, 2017. With progressive repayment of external commercial borrowings and absence of any plan for large, debt-funded capital expenditure (capex) or acquisition, long-term debt and total debt are expected to decline substantially by March 31, 2019, and remain moderate over the medium term. Gearing was 2.07 times as on March 31, 2018, and is expected to decline and remain below 0.7 time over the medium term. Correspondingly, debt protection metrics are expected to improve. The financial profile is supported by unencumbered cash and bank balance of Rs 148 crore as of March 2018.

FSL's exit in the first quarter of fiscal 2018 from the low-margin domestic business helped improve operating profitability to 13% in fiscal 2018. Furthermore, despite loss of revenue of around Rs 200 crore (accounted for 5.6% of overall revenue) from that business, the company's revenue grew 7.1%(fiscal 2017 includes domestic business revenue) in constant currency terms.

Steady operating performance and lower financial charges with reduction in debt led to increase in net cash accrual to Rs 393 crore for fiscal 2018 from Rs 338 crore in the previous fiscal. Focus on improving performance of acquired entities and acquisition of new clients will drive revenue growth, while sustaining profitability, over the medium term.

The ratings continue to reflect FSL's established market position in the business process outsourcing (BPO) sector, as well as healthy and diversified revenue profile with three major business verticals: healthcare, telecommunication (telecom) and media, and banking, financial services, and insurance (BFSI). The ratings also factor in adequate operating profitability and healthy financial risk profile. These strengths are partially offset by high geographical and customer concentration in revenue, and exposure to intense competition in the BPO sector.

Analytical Approach

* CRISIL has combined the business and financial risk profiles of FSL and its subsidiaries, as all the entities are under a common management and in the same line of business, and have strong financial and operational linkages.

* For arriving at the adjusted financials, CRISIL has amortised goodwill on acquired businesses over a period of 10 years.

Key Rating Drivers & Detailed Description

Strengths

* **Established market position and revenue diversity:** FSL has established itself as a prominent player in the BPO space. The company benefits from its scale of operations and revenue diversity across verticals. It has created a strong market position through organic growth, supplemented by acquisitions. Its revenue is diversified among three verticals - healthcare is the largest vertical, followed by telecom and media, and BFSI, contributing 36.80%, 33.90%, and 29.20%, respectively, to revenue.

* **Adequate operating profitability:** The company's operating profitability has improved consistently, to 13.2% in fiscal 2018 from 10.3% in fiscal 2013, on account of focus on profitable growth through reduction in business from low-margin clients (both domestic and overseas) and headcount reduction, and despite foreign exchange movements. Additionally, FSL has undertaken initiatives in the past few years for rationalising cost through alignment of its delivery centres, which has helped improve operating profit margin. CRISIL believes FSL will sustain operating margin at 13-14% over the medium term.

* **Healthy financial risk profile:** Debt repayment and absence of large, debt-funded capex have helped FSL improve capital structure, with gearing expected below 1.0 time by the end of fiscal 2019. Debt protection metrics are strong, with healthy net cash accrual to total debt ratio of 0.57 time and interest coverage ratio of 9.46 times for fiscal 2018. Liquidity should remain healthy over the medium term because of net cash accrual of above Rs 393 crore and prudent capex funding.

Weaknesses

* **High geographical and customer concentration in revenue:** FSL derived 53.6% of its revenue from the US and Canada in fiscal 2018, and the rest from India and the UK. The geographical concentration in revenue, especially from the US, which accounts for 53.6%, exposes FSL to risks related to economic slowdown in the region and to volatility in the value of the Indian rupee against the US dollar. Also, customer concentration risks persist. For fiscal 2018, the top client contributed 28.3% to revenue while the top five contributed 46.3%. CRISIL believes FSL's revenue will remain concentrated in the US and Canada over the medium term, driven by the healthcare and telecom segments.

* **Susceptibility to intense competition in the BPO sector:** Rapid evolution of the Indian information technology-enabled services (ITeS) sector has led to intense competition among companies for a share of the outsourcing pie. FSL faces competition from other pure-play ITeS players such as Genpact, WNS (Holdings) Ltd, Convergys Corporation, and Hinduja Global Solutions Ltd ('CRISIL A+/Stable/CRISIL A1+'), besides BPO operations of large information technology (IT) companies such as Accenture Plc, Infosys Ltd ('CRISIL AAA/Stable/CRISIL A1+'), and Wipro Ltd. Also, increasing wage cost and cost of hiring and training fresh talent remains a big challenge. CRISIL believes FSL will continue to face increasing competition in the market place as well as for talent.

Outlook: Stable

CRISIL believes FSL will witness growth of 7-9% in revenue and sustain its operating profitability over the medium term.

Upside scenario

- * More-than-anticipated improvement in business performance
- * Faster-than-expected improvement in key credit metrics, due to better cash generation or reduction in debt

Downside scenario

- * Significant deterioration in operating performance, including recent acquisitions, impacting cash generation and operating profitability
- * Large debt-funded capex, including acquisition, leading to material weakening of capital structure and debt protection metrics

About the Company

FSL provides BPO services across three verticals: telecom and media, healthcare, and BFSI. The company has a global delivery model, with 18,703 employees and 37 delivery centres across the US, the Philippines, India, the UK, and Sri Lanka. The company was promoted by ICICI Bank Ltd in 2001. The bank's stake has reduced over the years and as on June 30, 2018, was at 4.74%.

In fiscal 2013, Spen Liq Pvt Ltd, a wholly owned subsidiary of CESC Ltd (part of the RP-Sanjiv Goenka group) acquired 56.82% stake in FSL to become the majority shareholder.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs Crore	3536	3556
Profit after tax (PAT)	Rs Crore	326.5*	279*
PAT Margin	%	11.2	7.8
Adjusted Debt/Adjusted Networkth	Times	2.07	2.12
Interest Coverage	Times	9.46	8.35

*Not adjusted for goodwill amortisation

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Issue size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit/Overdraft Facility	NA	NA	NA	25.00	CRISIL A/Stable
NA	Cash Credit/Overdraft Facility*	NA	NA	NA	70.00	CRISIL A/Stable
NA	Cash Credit/Overdraft Facility**	NA	NA	NA	30.00	CRISIL A/Stable
NA	Bank Guarantee	NA	NA	NA	40.00	CRISIL A1
NA	Overdraft#	NA	NA	NA	40.00	CRISIL A1
NA	Packing Credit in Foreign Currency#	NA	NA	NA	171.25	CRISIL A1
NA	Packing Credit in Foreign Currency^	NA	NA	NA	93.75	CRISIL A1

*Interchangeable with Packing Credit in Foreign Currency, Pre Shipment Credit in Forex and Standby Line of Credit

**Interchangeable with Packing Credit in Foreign Currency, Pre Shipment Credit in Forex and Bill Discounting

#Interchangeable with Pre Shipment Credit in Forex

^Fully interchangeable with Post Shipment Credit in Foreign Currency and Standby Line of Credit

Annexure - Rating History for last 3 Years

Instrument	Current			2018 (History)		2017		2016		2015		Start of 2015
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	430.00	CRISIL A/Stable/ CRISIL A1			01-08-17	CRISIL A-/Stable/ CRISIL A2+	11-05-16	CRISIL A-/Positive/ CRISIL A2+	03-08-15	CRISIL A-/Stable/ CRISIL A2+	CRISIL A-/Stable/ CRISIL A2+
	LT/ST	40.00				01-08-17		11-05-16		03-08-15		

Non Fund-based Bank Facilities		CRISIL A1		CRISIL A2+		CRISIL A2+		CRISIL A2+	CRISIL A2+
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All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	40	CRISIL A1	Bank Guarantee	40	CRISIL A2+
Cash Credit/ Overdraft facility	25	CRISIL A/Stable	Cash Credit/ Overdraft facility	25	CRISIL A-/Stable
Cash Credit/ Overdraft facility*	70	CRISIL A/Stable	Cash Credit/ Overdraft facility*	70	CRISIL A-/Stable
Cash Credit/ Overdraft facility**	30	CRISIL A/Stable	Cash Credit/ Overdraft facility**	30	CRISIL A-/Stable
Overdraft#	40	CRISIL A1	Overdraft#	40	CRISIL A2+
Packing Credit in Foreign Currency#	171.25	CRISIL A1	Packing Credit in Foreign Currency#	171.25	CRISIL A2+
Packing Credit in Foreign Currency^	93.75	CRISIL A1	Packing Credit in Foreign Currency^	93.75	CRISIL A2+
Total	470	--	Total	470	--

*Interchangeable with packing credit in foreign currency, pre-shipment credit in forex and standby line of credit

**Interchangeable with packing credit in foreign currency, pre-shipment credit in forex, and bill discounting

#Interchangeable with pre-shipment credit in forex

^Fully interchangeable with Post Shipment Credit in Foreign Currency and Standby Line of Credit

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Software Industry](#)

[CRISILs Criteria for Consolidation](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Anuj Sethi Senior Director - CRISIL Ratings CRISIL Limited B: +91 44 6656 3100 anuj.sethi@crisil.com</p> <p>Sameer Charania Director - CRISIL Ratings CRISIL Limited D: +91 22 4097 8205 sameer.charania@crisil.com</p> <p>Yatinder Prasad Rating Analyst - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 Yatinder.Prasad@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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