



**2<sup>nd</sup> April 2019**

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: CARE Ratings Upgrade**

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

<b>Long/ Short term Bank Facilities - Fund/ Non Fund Based Facilities</b>	<b>CARE A+: Stable/CARE A1+ (Revised from CARE A: Stable/ CARE A1)</b>
<b>Short Term Bank Facilities - Non Fund Based Facilities</b>	<b>CARE A1+ (Revised from CARE A1)</b>

We are enclosing Rating Rationale Letter/ document issued by CARE.  
Kindly requested to take above on record.

Thanking you,  
For Firstsource Solutions Limited

**Firstsource Solutions Limited**

**Mumbai**  
**Pooja Nambiar**

**Company Secretary & Compliance Officer**

**Encl.: A/a**

**FIRSTSOURCE SOLUTIONS LTD.,**

Paradigm B, 5th Floor, Mindspace, New Link Road, Malad (W), Mumbai - 400 064. India.  
Tel: +91 22 6666 0888 | Fax: +91 22 6666 0887 | Web: www.firstsource.com

**CARE/HO/RL/2018-19/5676**  
**Mr. Vishal Shukla,**  
**Vice President,**  
**Firstsource Solutions Limited.**  
5<sup>th</sup> Floor, Paradigm 'B' Wing,  
MindSpace, Link Road,  
Malad (West),  
Mumbai – 400 064

April 1, 2019

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your company for FY18 and 9MFY19, our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long/Short term Bank Facilities – Fund/Non Fund Based Facilities	147.50	CARE A+:Stable/CARE A1+ (Single A plus; Outlook:Stable/A One plus)	Revised from CARE A; Stable/CARE A1 (Single A/A One)
Short term Bank Facilities – Non Fund Based Facilities	132.00	CARE A1+ (A One plus)	Revised from CARE A1 (A One)
Total	<b>279.50</b> <b>(Rupees Two Hundred Seventy Nine Crore and Fifty Lakhs only)</b>		

\*Sublimit of fund base limit

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by 03 April 2019, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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CARE Ratings Limited  
(Formerly known as Credit Analysis & Research Limited)

*Shubhra Shah*

**Shubhra Shah**

Manager

[shubhra.shah@careratings.com](mailto:shubhra.shah@careratings.com)

*Pulkit Agarwal*

**Pulkit Agarwal**

Deputy General Manager

[pulkit.agarwal@careratings.com](mailto:pulkit.agarwal@careratings.com)

Encl.: As above

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure 1**

**Details of Rated Facilities**

**1. Long-term/Short-term Facilities**

**1.A. Fund/Non Fund Based Limits**

(Rs. crore)

Sr. No.	Name of Bank	Fund Based Limits				Total Fund Based Limits
		CC*	PSCFC*	WCDL*	BG*	
1	Yes Bank	(20.00)	40.00	(20.00)	-	40.00
2	DBS Bank	(20.00)	82.50	-	(82.50)	82.50
3	ICICI Bank	25.00	-	(25.00)	-	25.00
	<b>TOTAL</b>	<b>25.00</b>	<b>122.50</b>	<b>-</b>	<b>-</b>	<b>147.50</b>

\*CC=Cash credit; PSCFC=Post Shipment Credit in Foreign Currency; WCDL=Working Capital Demand Loan; BG=Bank guarantee  
 Figures in brackets indicate sub-limits

**Total Long-term/Short-term Facilities (1.A.): Rs.147.50 crore**

**2. Short-term facilities**

**2.A. Non-Fund Based Limits**

Sr. No.	Name of Bank	Non Fund Based Limits		
		LC*	BG*	Total Non-fund Based Limits
1	Yes Bank	-	2.00	2.00
2	ICICI Bank	5.00	125.00	130.00
	<b>TOTAL</b>	<b>5.00</b>	<b>127.00</b>	<b>132.00</b>

\*LC=Letter of credit; BG=Bank guarantee

**Total Short-term Facilities (2.A.): Rs.132.00 crore**

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**Annexure 2**  
**Draft Press Release**  
**Firstsource Solutions Limited (FSL)**

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>2</sup>	Remarks
Long-term/Short-term Bank Facilities	147.50	CARE A+; Stable [Single A plus; Outlook: Stable]/ CARE A1+ [A One plus]	Revised from CARE A/CARE A 1
Short-term Bank Facilities	132.00	CARE A1+ [A One plus]	Revised from CARE A 1
<b>Total Facilities</b>	<b>279.50</b> <b>(Rupees Two Hundred Seventy Nine crore and Fifty lakh only)</b>		
Commercial Paper*	50.00	CARE A1+ (A One plus)	Revised from CARE A 1

\*carved out of sanctioned working capital limits.

**Rating Rationale**

The upgrade in the ratings assigned to the bank facilities/instruments of Firstsource Solutions Limited (FSL) reflects continuous reduction in debt resulting in improvement in overall gearing and debt protection metrics. The ratings 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 with improving profitability and healthy cash accruals.

The ratings 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 may put a strain on the balance sheet remain key rating sensitivities.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

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## Detailed description of the key rating drivers

### Key Rating Strengths

#### ***Steady operational performance and improvement in the financial risk profile***

FSL has sustained healthy operating performance in this competitive BPO industry with steady increase in operating income over the years. Operating profitability has also shown improvement from 12.48% in FY17 to 13.25% in FY18 and subsequently to 13.97% in 9MFY19, on the back of various cost reduction measures coupled with continued focus on more profitable clients.

Progressive repayment of long term loans coupled with health cash accruals have led to an improvement in overall gearing from 0.49x as on March 31, 2017 to 0.29x as on March 31, 2018. Absence of any major debt funded capex plan and repayment of maturing debt is likely to keep gearing at comfortable levels in the near to medium term. Debt service coverage indicators have also improved in FY18 (interest coverage 9.35x as compared to 8.25x in FY17 and TDGCA of 1.83x as compared to 2.69 in FY17). FSL is also expected to benefit from its affiliation with the RP-SanjivGoenka group, in terms of need-based financial support.

The company also had a comfortable liquidity profile backed by low operating cycle (25 days). FSL also had free cash and bank balances of Rs.99.88 crore as on December 31, 2018 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 33.9%, 36.8% and 29.2% respectively to the company's revenue during FY18. 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)	FY14	FY15	FY16	FY17	FY18	Q3FY18	Q3FY19
Healthcare	32	36	39	36	37	37	34
Telecommunications & Media	45	43	37	32	34	33	29
BFSI	23	22	23	32	29	29	35
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Geography-wise Revenue Breakup

(% of total income)	FY14	FY15	FY16	FY17	FY18	Q3FY18	Q3FY19
North America	47	49	54	55	54	54	55
UK	36	36	38	38	44	45	44
India	9	8	6	6	3	1	1
Rest of World	8	7	2	0.9	-	-	-

### **Global delivery capabilities**

FSL possesses necessary capabilities to service its client through its global delivery centres. As on March 31, 2018, the Company, on a consolidated basis has 38 delivery centres, including 10 located in 7 cities in India, 18 in US, 7 in UK & Europe, 2 in Philippines and 1 in Sri Lanka. 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 largest client contributed to ~28% of its total revenue in FY18 which reduced to ~25% in 9MFY19. Further, the company's top 5 clients contributed 46% of its revenue in FY18 and 41% in 9MFY19 thus, exposing it to significant client concentration risks. 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:** CARE has considered consolidated financials of TML and its group companies on account of significant operational and financial linkages.

**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

*28/10/19*

## 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 Company, on a consolidated basis had 38 global delivery centers as on March 31, 2018 located in India, US, Europe, Philippines and Sri Lanka.

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3557.23	3537.48
PBILDT	443.88	468.59
PAT	279.24	326.58
Overall gearing (times)	0.49	0.29
Interest coverage (times)	8.25	9.35

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Analyst Contact:

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

### About CARE Ratings:

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.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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**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+	-	CARE A1 (05-04-18)	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+	-	CARE A; stable/CARE A1 (05-04-18)	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+	-	CARE A1 (05-04-18)	1)CARE A1 (23-Jan-17) 2)CARE A1 (18-Apr-16)	1)CARE A1 (15-Apr-15)

**Annexure -3: List of subsidiaries which are consolidated**

Sr. No.	Name of the company
1	Firstsource Solutions UK Limited
2	Firstsource Solutions S.A
3	Firstsource BPO Ireland Limited
4	Firstsource Dialog Solutions Pvt. Ltd.
5	Firstsource Process Management Services Limited
6	Firstsource Group USA, Inc
7	Firstsource Business Process Services LLC
8	Firstsource Advantage LLC
9	One Advantage LLC

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<b>Sr. No.</b>	<b>Name of the company</b>
10	Medassist Holding LLC
11	Firstsource Solutions USA LLC
12	Firstsource Transaction Services LLC
13	ISGN Solutions Inc
14	ISGN Fullfillment Services Inc
15	ISGN Fullfillment Agency LLC

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