RP - Sanjiv Goenka Group
Growing Legacies

firstsource
Stay Ahead

31st March 2020

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.

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

Dear Madam/ Sir,

Sub: Updates on CARE Ratings

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

Long/ Short term Bank Facilities – Fund/ Fund Based Facilities	**CARE A+:Stable/CARE A1+ (Single A plus; Outlook:Stable/A One plus)**
Short Term Bank Facilities – Non Fund Based Facilities	**CARE A1+ (A One plus)**

We are enclosing Rating Rationale Letter/ document issued by CARE.

Kindly requested to take above on record.

Thanking you,
For **Firstsource Solutions Limited**

Sd/-
Pooja Nambiar
Company Secretary & Compliance Officer
Encl.: A/a

No. CARE/HO/RL/2019-20/5055

Mr. Dinesh Jain,
Chief Financial Officer,
Firstsource Solutions Limited.
5th Floor, Paradigm 'B' Wing,
Mindspace, Link Road,
Malad (West),
Mumbai – 400 064

March 30, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY19 (Audited) and 9MFY20 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Actions**
Long/Short term Bank Facilities – Fund Based Facilities	298.0 (enhanced from 147.5)	**CARE A+:Stable/CARE A1+ (Single A plus; Outlook:Stable/A One plus)**	**Reaffirmed**
Short term Bank Facilities – Non Fund Based Facilities	40.0 (reduced from 132)	**CARE A1+ (A One plus)**	**Reaffirmed**
Total	**338.0 (Rupees Three Hundred and Thirty Eight Crore only)**		

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 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 March 31, 2020, we will proceed on the basis that you have no 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. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades.

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However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

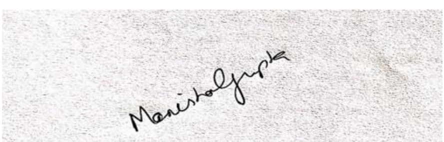
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

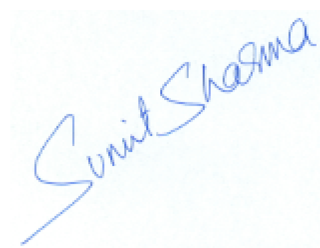
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

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

Thanking you,

Yours faithfully,





Manisha Gupta
Deputy Manager
manisha.gupta@careratings.com

Sumit Sharma
Deputy General Manager
Sumit.sharma@careratings.com

Encl.: As above

which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 1

Details of Rated Facilities

A-1 Details of Bank Facilities

Long-term/Short-term Facilities

1.A. Fund/Non Fund Based Limits

(Rs. crore)

Sr. No.	Name of Bank	Fund Based Limits				
		CC*	PSCFC*	WCDL*	OD*	Total Fund Based Limits
1	Yes Bank		40			40
2	DBS Bank		108#			108
3	ICICI Bank	25	125		0	150
	TOTAL	**25**	**273**	**-**	**0**	**298**

**CC=Cash credit; PSCFC=Post Shipment Credit in Foreign Currency; WCDL=Working Capital Demand Loan; OD=Overdraft*
#USD 15 million using exchange rate of ~Rs.72/$ as of Feb 29, 2020

Total Long-term/Short-term Facilities (1.A.): Rs.298 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	ICICI Bank	5	35	40
	TOTAL	**5**	**35**	**40**

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

Total Short-term Facilities (2.A.): Rs.40.00 crore

Total facilities rated (1.A+2.A): Rs.338.00 crore

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Annexure II

Draft Press Release

Firstsource Solutions Limited

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long/Short term Bank Facilities – Fund Based Facilities	298.0 (enhanced from 147.5)	**CARE A+:Stable/CARE A1+ (Single A plus; Outlook:Stable/A One plus)**	**Reaffirmed**
Short term Bank Facilities – Non Fund Based Facilities	40.0 (reduced from 132)	**CARE A1+ (A One plus)**	**Reaffirmed**
Total	**338.0 (Rupees Three Hundred and Thirty Eight Crore only)**		
Commercial Paper*	50.00	CARE A1+ (A One plus)	**Reaffirmed**

**carved out of sanctioned working capital limits.*

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Firstource Solutions Limited (FSL) continues to 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 and healthy cash accruals.

However, the rating strengths are tempered by FSL's exposure to intense competition in the BPM industry, risk associated with high attrition rates and foreign exchange fluctuation risks.

Key Rating Sensitivities

Positives

- Positive Cash Flow from Operations going ahead on a sustained basis
- Current ratio greater than 1.5x going ahead on a sustained basis

Negatives

- Increase in gross gearing to more than unity on sustained basis
- Attrition greater than 80% on a sustained basis

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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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. The RP-Sanjiv Goenka Group acquired 54.13% shares of FSL through Spen Liq Private Limited, a wholly owned subsidiary of CESC Limited. Sanjiv Goenka, Chairman, RP-Sanjiv Geonka Group was appointed Chairman at FSL in December 2012. FSL has a qualified senior and middle management team with a track record of operational excellence. Furthermore, the board of FSL consists of a team of highly qualified professionals with rich and varied experience in their related fields

Steady operational performance

FSL has sustained healthy operating performance in the competitive BPO industry with steady increase in operating income over the years. FSL's FY19 consolidated TOI grew by 8.24% on a y-o-y basis to Rs.3,829 crore (vs Rs.3,537 crore in FY18) primarily on account of new business contracts coupled with growth in the BFSI (US and UK), Healthcare provider and Utility segments. The PBILDT margin improved from 12.48% in FY17 to 14.43% in FY19. The profitability margins improved mostly on account of rationalization of employee cost and benefits from implementing Artificial Intelligence (AI) and automation during Q4FY19.

Comfortable capital structure and debt coverage indicators

The financial risk profile of the company has continued to improve aided by healthy cash accruals on the back of stable operating profitability and reduction in total debt. The capital structure continued to improve and stood comfortable with overall gearing at 0.21x as on March 31, 2019 as compared to 0.29x as on March 31, 2018. The scheduled repayment of long-term loans and lower utilization of working capital borrowing coupled with accretion of the profit have helped the company to improve its capital structure. The interest coverage ratio improved significantly from 8.91 times in FY18 to 12.02 times in FY19. Further total debt /GCA ratio also improved from 1.83x in FY18 to 1.19x in FY19 due to healthy cash accruals and reduced debt levels.

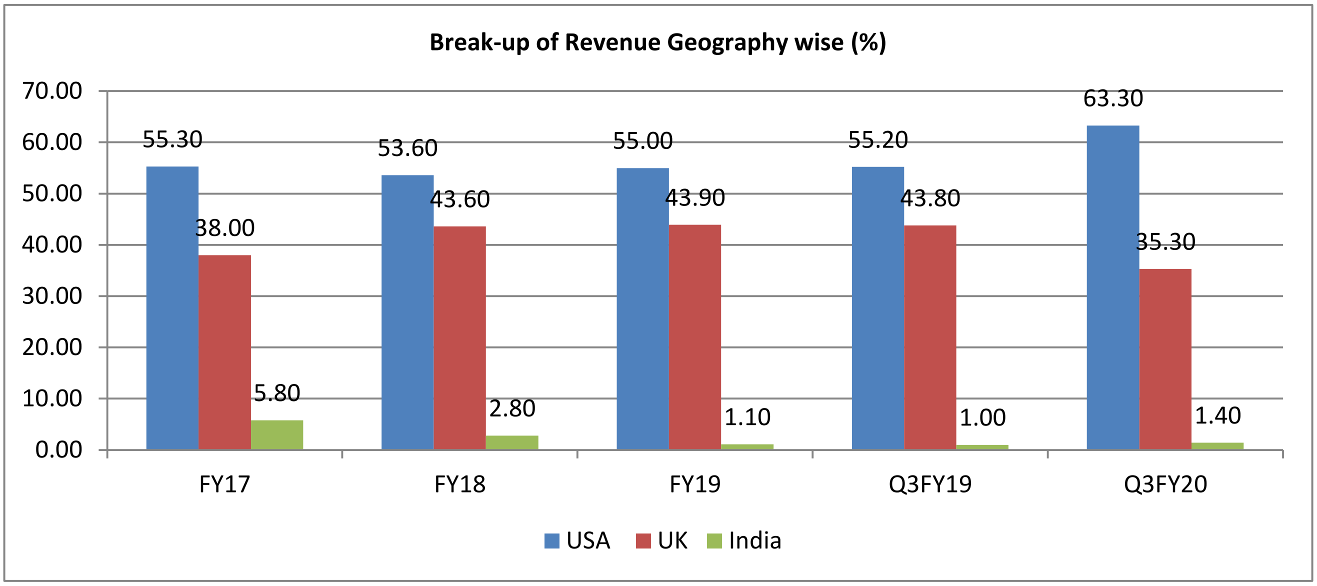
Diversified revenue profile and strong client base

FSL provides BPO services mainly across three verticals: Telecom & Media, Healthcare, and BFSI. The verticals contributed 36.0%, 28.0% and 34.3% respectively to the company's revenue during FY19. 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:

Break-up Revenue Industry wise (%)	FY17	FY18	FY19	Q3FY19	Q3FY20
BFSI	31.8	29.20	36.00	35.30	43.70
Telecom & Media	32.2	33.90	28.00	28.50	22.00
Healthcare	35.7	36.80	34.30	34.10	32.30
Others	0.3	0.10	1.70	2.10	2.00
Total	100.00	100.00	100.00	100.00	100.00

Geography-wise Revenue Breakup



Global delivery capabilities

FSL possesses necessary capabilities to service its client through its global delivery centres. As on March 31, 2019, it had 41 delivery centres, including 11 located in 7 cities in India, 19 in US, 8 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 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, 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.

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Risks related to employee attrition

Indian BPM industry is facing stiff competition from low cost destinations like China, Philippines, Mexico, Brazil and Canada 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's largest client contributed to ~28% of its total revenue in FY18 which reduced to ~25% in FY19. Further, the company's top 5 clients contributed 46% of its revenue in FY18 and 41% inFY19 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.

Liquidity Analysis: Strong

Liquidity is marked by strong Gross Cash accruals of Rs.476 crore during FY19 against negligible repayment obligations and liquid investments (in Mutual Funds) to the tune of Rs.122 crore as on March 31, 2019. With a gearing of 0.21x as on March 31, 2019, the company has sufficient headroom, to raise additional debt for its capex. Its unutilized bank lines 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.168.6 crore as on March 31, 2019 which provides additional liquidity back-up. Gross cash & cash equivalent stand at Rs.291 crore as on March 31, 2019.

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

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
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

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 41 global delivery centers as on March 31, 2019 located in India, US, Europe, Philippines and Sri Lanka.

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 Ltd. (rated

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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)	FY18 (A)	FY19 (A)
Total operating income	3537	3,829
PBILDT	471	552
PAT	327	378
Overall gearing (times)	0.29	0.21
Interest coverage (times)	8.91	12.02

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	-	-	-	298.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	40.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	50.00	CARE A1+	1)CARE A1+ (02-Apr-19)	1)CARE A1 (05-Apr-18)	-	1)CARE A1 (23-Jan-17) 2)CARE A1 (18-Apr-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	298.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (02-Apr-19)	1)CARE A; Stable / CARE A1 (05-Apr-18)	-	1)CARE A; Stable / CARE A1 (23-Jan-17) 2)CARE A / CARE A1

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
								(18-Apr-16)
3.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A1+	1)CARE A1+ (02-Apr-19)	1)CARE A1 (05-Apr-18)	-	1)CARE A1 (23-Jan-17) 2)CARE A1 (18-Apr-16)

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

Sl. No.	Name of the Company	% of Holding as on December 31, 2019
	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 Transaction Services LLC	100.00
14.	Firstsource BPO Ireland Limited@	100.00
15.	Firstsource Dialog Solutions Pvt. Ltd.	100.00
	Associates	
16.	Nanobi Data and Analytics Private Limited	100.00

The name of ISGN Solutions Inc. was changed to Sourcepoint, Inc.

The name of ISGN Fulfillment Services, Inc. was changed to Sourcepoint Fulfillment Services, Inc.

@ During FY19, FSL transferred its entire investment/ ownership in Firstsource BPO Ireland Limited, wholly owned subsidiary of the company, to Firstsource Solutions UK Limited, wholly owned subsidiary of the company and accordingly, consequent to transfer of investment/ ownership, Firstsource BPO Ireland Limited became the wholly owned step-down subsidiary of the company

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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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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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**