

Acquisition provides foray into Retail

Information Technology ▶ Company Update ▶ September 24, 2024

TARGET PRICE (Rs): 330

FSOL has acquired Ascensos—a leading customer experience outsourcing partner for retail and eCommerce businesses with headquarters in the UK—for £42mn (0.7x EV/Sales on CY23 basis). The acquisition will add the retail vertical to FSOL’s existing domain strength in BFS, CMT, Healthcare, and E&U. Per Everest estimates, Retail and CPG BPO is a USD28bn market globally. FSOL will expand nearshore delivery presence with addition of Ascensos’s scaled presence in South Africa, Romania, and Trinidad and Tobago. It also fortifies its multi-lingual capabilities for CX services. Ascensos’s revenue was flattish at £63-65mn over CY21-23, while EBITM was 0.4% in CY23. We expect the acquisition to be margin dilutive initially. FSOL’s margin profile is expected to gradually improve with anticipated revenue and operational synergies. We have yet not incorporated the acquisition’s impact in our estimates, pending more clarity on revenue/margin synergies (likely during Q2 results/earnings call). We have an ADD rating on the stock, with TP of Rs330/sh at 25x Sep-26E EPS.

Firstsource Solutions: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,223	63,362	74,476	84,881	96,093
EBITDA	8,265	9,562	11,585	13,771	16,188
Adj. PAT	5,137	5,192	6,163	7,784	9,777
Adj. EPS (Rs)	7.4	7.4	8.8	11.2	14.0
EBITDA margin (%)	13.7	15.1	15.6	16.2	16.8
EBITDA growth (%)	(13.9)	15.7	21.1	18.9	17.6
Adj. EPS growth (%)	(4.4)	1.1	18.7	26.3	25.6
RoE (%)	16.1	14.7	15.9	18.3	20.6
RoIC (%)	12.1	13.9	15.2	17.1	20.4
P/E (x)	42.7	42.2	35.6	28.2	22.4
EV/EBITDA (x)	27.1	23.4	19.6	16.2	13.5
P/B (x)	6.5	5.9	5.4	4.9	4.4
FCFF yield (%)	3.4	2.6	3.1	4.1	5.0

Source: Company, Emkay Research

Deal contours

FSOL has acquired 100% stake in Ascensos (with headquarters in UK) along with three of its subsidiaries, for a cash consideration of £42mn (including upfront payment and earnouts). The three subsidiaries have presence in Trinidad, South Africa, and Romania, respectively. On completion of the transaction, Ascensos will become a subsidiary of FSOL UK Ltd. (subsidiary of FSOL). As part of the agreement, Ascensos will operate as a separate business unit within FSOL, keeping its existing brand and maintaining its Scottish headquarters while using the combined entity’s technological capabilities and expert employees to serve the retail industry better. John Devlin will remain the CEO, guaranteeing continuity for Ascensos clients. The transaction is completed with immediate effect.

Acquisition aids expansion into Retail and of nearshore delivery presence

With this acquisition, FSOL capitalizes on its CX leadership, making inroads into the retail sector and helping brands embrace the next wave of digital innovation by simplifying complex customer journeys and seamlessly connecting front-, middle-, and back-office operations across digital, analog, and physical experiences. The depth of Ascensos’s expertise in the retail and eCommerce sectors, combined with FSOL’s technological strength and expansive global capabilities, will now accelerate transformation programs for existing clients while improving operational experience for customer-facing colleagues. FSOL clients will benefit from Ascensos’s nearshore delivery capabilities in Romania, South Africa, and Trinidad and Tobago, thus broadening execution opportunities as well as strengthening multi-lingual capabilities. Ascensos’s clients will also benefit from FSOL’s offshore delivery capabilities and strong technological abilities in AI, analytics, and automation, thus empowering it to develop advanced solutions tailored to the retail market. This collaboration opens doors for FSOL in the Retail segment that has a total global market of USD28bn.

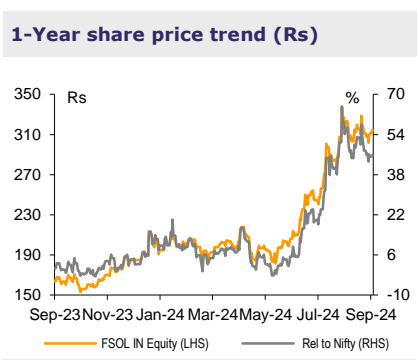
Brief profile of Ascensos

Incorporated in 2013 with headquarters in UK, Ascensos is one of Europe’s leading independent providers of customer experience management solutions with presence in UK, South Africa, Romania, and Trinidad. It provides BPM services for the retail, consumer, and e-commerce verticals.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	4.9
CMP (23-Sep-24) (Rs)	314.7

Stock Data	Ticker
52-week High (Rs)	344
52-week Low (Rs)	148
Shares outstanding (mn)	697.0
Market-cap (Rs bn)	219
Market-cap (USD mn)	2,625
Net-debt, FY25E (Rs mn)	7,685
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	2,541.1
ADTV-3M (USD mn)	30.4
Free float (%)	44.0
Nifty-50	25,939
INR/USD	83.6
Shareholding, Jun-24	
Promoters (%)	53.7
FPIs/MFs (%)	9.4/19.5

Price Performance			
(%)	1M	3M	12M
Absolute	(2.7)	52.8	94.2
Rel. to Nifty	(6.9)	38.5	47.3



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Exhibit 1: Ascensos – Financials

(£ mn)	CY17	CY18	CY19	CY20	CY21	CY22	CY23
Revenue from operations	27.3	27.3	30.0	40.1	64.9	63.0	64.1
<i>Growth</i>	170.6%	0.1%	9.7%	33.9%	61.8%	-2.9%	1.7%
Cost of sales	21.3	20.8	22.5	30.7	49.0	49.9	47.4
Gross Profit	6.0	6.5	7.5	9.4	15.9	13.1	16.7
<i>GPM</i>	22.1%	23.8%	24.9%	23.5%	24.5%	20.8%	26.0%
Administrative expenses	7.5	7.8	7.7	9.8	12.0	13.9	16.2
Redundancy costs	-	-	-	-	-	0.4	0.2
EBIT	(1.5)	(1.3)	(0.3)	(0.4)	3.9	(1.2)	0.3
<i>EBITM</i>	-5.5%	-4.9%	-0.9%	-1.0%	6.0%	-1.9%	0.4%
Finance cost	0.5	0.6	0.6	0.4	0.5	0.5	0.7
Other income	0.7	0.8	0.5	1.4	0.6	1.0	0.4
Profit / Loss before tax	(1.3)	(1.0)	(0.4)	0.6	4.0	(0.7)	(0.0)
<i>PBTM</i>	-4.9%	-3.8%	-1.3%	1.5%	6.1%	-1.1%	0.0%
Tax	(0.1)	(0.0)	0.0	0.1	0.7	0.4	0.3
Profit / Loss after tax	(1.3)	(1.0)	(0.4)	0.5	3.3	(1.2)	(0.3)

Source: Company, Emkay Research

Exhibit 2: Ascensos – Revenue by country of destination

Country (£ mn)	CY17	CY18	CY19	CY20	CY21	CY22	CY23
UK	25.4	25.3	28.1	33.9	49.8	43.7	37.7
Europe	1.9	2.1	1.9	6.2	14.8	16.5	17.8
RoW					0.4	2.8	8.6
Total	27.3	27.3	30.0	40.1	64.9	63.0	64.1

Source: Company, Emkay Research

Exhibit 3: Ascensos – Headcount data

No of employees	CY19	CY20	CY21	CY22	CY23
Operations	1,389	1,721	2,514	2,436	2,390
Administration	61	56	73	90	112
Total	1,450	1,777	2,587	2,526	2,502

Source: Company, Emkay Research

Firstsource Solutions: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,223	63,362	74,476	84,881	96,093
Revenue growth (%)	1.7	5.2	17.5	14.0	13.2
EBITDA	8,265	9,562	11,585	13,771	16,188
EBITDA growth (%)	(13.9)	15.7	21.1	18.9	17.6
Depreciation & Amortization	2,632	2,602	3,011	3,387	3,698
EBIT	5,633	6,960	8,574	10,384	12,490
EBIT growth (%)	(20.7)	23.6	23.2	21.1	20.3
Other operating income	0	0	0	0	0
Other income	1,309	415	96	125	224
Financial expense	790	1,034	1,131	1,017	790
PBT	6,152	6,342	7,539	9,492	11,923
Extraordinary items	0	0	0	0	0
Taxes	1,015	1,150	1,376	1,709	2,146
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,137	5,192	6,163	7,784	9,777
PAT growth (%)	(4.4)	1.1	18.7	26.3	25.6
Adjusted PAT	5,137	5,192	6,163	7,784	9,777
Diluted EPS (Rs)	7.4	7.4	8.8	11.2	14.0
Diluted EPS growth (%)	(4.4)	1.1	18.7	26.3	25.6
DPS (Rs)	3.5	3.5	4.0	5.0	6.0
Dividend payout (%)	47.5	47.0	45.2	44.8	42.8
EBITDA margin (%)	13.7	15.1	15.6	16.2	16.8
EBIT margin (%)	9.4	11.0	11.5	12.2	13.0
Effective tax rate (%)	16.5	18.1	18.3	18.0	18.0
NOPLAT (pre-IndAS)	4,704	5,699	7,009	8,515	10,241
Shares outstanding (mn)	697.0	697.0	697.0	697.0	697.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,152	6,342	7,539	9,492	11,923
Others (non-cash items)	1,689	3,273	2,915	3,262	3,474
Taxes paid	(656)	(718)	(1,376)	(1,709)	(2,146)
Change in NWC	765	(2,404)	(1,096)	(1,111)	(1,413)
Operating cash flow	7,950	6,448	7,981	9,934	11,838
Capital expenditure	(514)	(850)	(1,284)	(890)	(900)
Acquisition of business	0	0	(3,209)	0	0
Interest & dividend income	10	10	96	125	224
Investing cash flow	134	(547)	(4,597)	(1,265)	(3,476)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,351)	(291)	1,228	(2,979)	(1,982)
Payment of lease liabilities	(1,495)	(1,993)	(2,500)	(2,000)	(2,000)
Interest paid	(787)	(1,011)	0	0	0
Dividend paid (incl tax)	(2,384)	(2,406)	(2,788)	(3,485)	(4,182)
Others	(140)	59	0	0	0
Financing cash flow	(7,434)	(5,642)	(4,060)	(8,464)	(8,164)
Net chg in Cash	650	259	(676)	205	198
OCF	7,950	6,448	7,981	9,934	11,838
Adj. OCF (w/o NWC chg.)	7,185	8,852	9,077	11,046	13,251
FCFF	7,436	5,597	6,697	9,044	10,938
FCFE	6,657	4,574	5,662	8,153	10,371
OCF/EBITDA (%)	96.2	67.4	68.9	72.1	73.1
FCFE/PAT (%)	129.6	88.1	91.9	104.7	106.1
FCFF/NOPLAT (%)	158.1	98.2	95.6	106.2	106.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	6,970	6,970	6,970	6,970	6,970
Reserves & Surplus	26,699	30,034	33,409	37,708	43,303
Net worth	33,668	37,004	40,379	44,678	50,272
Minority interests	4	4	4	4	4
Deferred tax liability (net)	1,196	1,470	1,470	1,470	1,470
Total debt	6,665	6,715	9,509	6,530	4,548
Total liabilities & equity	41,533	45,193	51,362	52,682	56,295
Net tangible fixed assets	1,739	1,641	1,623	1,548	1,424
Net intangible assets	1,015	649	1,054	617	170
Net ROU assets	4,958	6,355	7,147	7,162	6,935
Capital WIP	34	171	170	170	170
Goodwill	29,450	29,885	32,485	32,485	32,485
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	2,267	2,300	1,824	2,529	5,527
Current assets (ex-cash)	17,180	19,624	21,298	23,122	25,303
Current Liab. & Prov.	15,111	15,432	14,239	14,952	15,720
NWC (ex-cash)	2,069	4,192	7,059	8,170	9,583
Total assets	41,533	45,193	51,362	52,682	56,295
Net debt	4,398	4,415	7,685	4,001	(979)
Capital employed	41,533	45,193	51,362	52,682	56,295
Invested capital	39,232	42,722	49,368	49,982	50,597
BVPS (Rs)	48.3	53.1	57.9	64.1	72.1
Net Debt/Equity (x)	0.1	0.1	0.2	0.1	0.0
Net Debt/EBITDA (x)	0.5	0.5	0.7	0.3	(0.1)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	16.8	17.0	18.0	20.2	23.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	42.7	42.2	35.6	28.2	22.4
P/CE(x)	28.2	28.1	23.9	19.6	16.3
P/B (x)	6.5	5.9	5.4	4.9	4.4
EV/Sales (x)	3.7	3.5	3.0	2.6	2.3
EV/EBITDA (x)	27.1	23.4	19.6	16.2	13.5
EV/EBIT(x)	39.7	32.1	26.5	21.5	17.5
EV/IC (x)	5.7	5.2	4.6	4.5	4.3
FCFF yield (%)	3.4	2.6	3.1	4.1	5.0
FCFE yield (%)	3.0	2.1	2.6	3.7	4.7
Dividend yield (%)	1.1	1.1	1.3	1.6	1.9
DuPont-RoE split					
Net profit margin (%)	8.5	8.2	8.3	9.2	10.2
Total asset turnover (x)	1.5	1.5	1.5	1.6	1.8
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.1
RoE (%)	16.1	14.7	15.9	18.3	20.6
DuPont-RoIC					
NOPLAT margin (%)	7.8	9.0	9.4	10.0	10.7
IC turnover (x)	1.5	1.5	1.6	1.7	1.9
RoIC (%)	12.1	13.9	15.2	17.1	20.4
Operating metrics					
Core NWC days	12.5	24.1	34.6	35.1	36.4
Total NWC days	12.5	24.1	34.6	35.1	36.4
Fixed asset turnover	1.3	1.3	1.4	1.4	1.6
Opex-to-revenue (%)	86.3	84.9	84.4	83.8	83.2

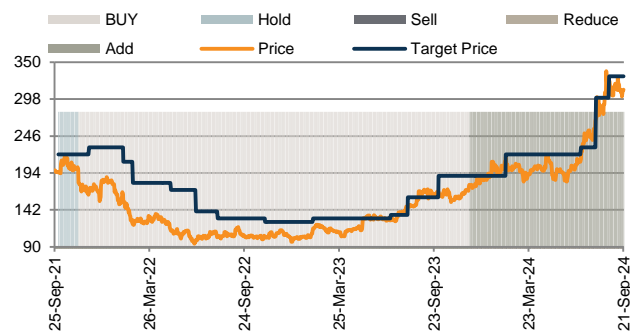
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Aug-24	323	330	Add	Dipeshkumar Mehta
30-Jul-24	271	300	Add	Dipeshkumar Mehta
01-Jul-24	214	230	Add	Dipeshkumar Mehta
09-Jun-24	197	220	Add	Dipeshkumar Mehta
03-Jun-24	192	220	Add	Dipeshkumar Mehta
27-May-24	194	220	Add	Dipeshkumar Mehta
03-May-24	208	220	Add	Dipeshkumar Mehta
31-Mar-24	198	220	Add	Dipeshkumar Mehta
01-Mar-24	205	220	Add	Dipeshkumar Mehta
08-Feb-24	217	220	Add	Dipeshkumar Mehta
31-Dec-23	185	190	Add	Dipeshkumar Mehta
30-Nov-23	178	190	Add	Dipeshkumar Mehta
16-Nov-23	166	190	Buy	Dipeshkumar Mehta
08-Nov-23	160	190	Buy	Dipeshkumar Mehta
02-Oct-23	168	190	Buy	Dipeshkumar Mehta
04-Aug-23	149	160	Buy	Dipeshkumar Mehta
02-Jul-23	127	135	Buy	Dipeshkumar Mehta
05-May-23	113	130	Buy	Dipeshkumar Mehta
01-Apr-23	106	130	Buy	Dipeshkumar Mehta
03-Feb-23	116	130	Buy	Dipeshkumar Mehta
02-Jan-23	103	125	Buy	Dipeshkumar Mehta
03-Nov-22	104	125	Buy	Dipeshkumar Mehta
04-Oct-22	105	130	Buy	Dipeshkumar Mehta
04-Aug-22	105	130	Buy	Dipeshkumar Mehta
23-Jun-22	100	140	Buy	Dipeshkumar Mehta
06-May-22	112	170	Buy	Dipeshkumar Mehta
01-Apr-22	128	180	Buy	Dipeshkumar Mehta
22-Feb-22	122	180	Buy	Dipeshkumar Mehta
04-Feb-22	153	210	Buy	Dipeshkumar Mehta
01-Jan-22	183	230	Buy	Dipeshkumar Mehta
30-Dec-21	183	230	Buy	Dipeshkumar Mehta
30-Nov-21	170	230	Buy	Dipeshkumar Mehta
23-Nov-21	170	220	Buy	Dipeshkumar Mehta
10-Nov-21	180	220	Buy	Dipeshkumar Mehta
02-Oct-21	195	220	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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