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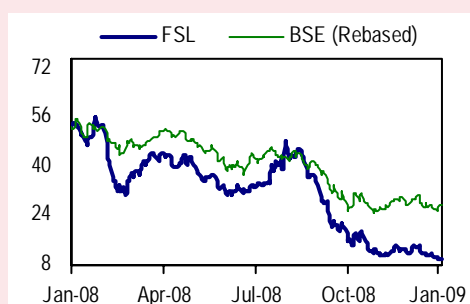
STOCK DATA

Market Cap	Rs4.7bn
Book Value per share	Rs28
Eq Shares O/S (F.V. Rs.10)	428.2mn
Median Vol (12 mths)	722,213 (BSE+NSE)
52 Week High/Low	Rs57/10
Bloomberg Code	FSOL@IN
Reuters Code	FISO.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(23.4)	(32.1)	(81.4)
Relative	(19.4)	(33.5)	(64.2)

STOCK PRICE PERFORMANCE



Firstsource Solutions Ltd. (FSL) net sales grew by 4.5% QoQ to Rs4.4bn and were in in-line with our expectations but the pressure on OPM was greater than anticipated as they dipped by 490bps sequentially to 10.3% primarily due to ramp up costs and the impact of a slowing U.S. economy on the collections & healthcare business. As a result, net profits slumped by 58% QoQ to Rs118mn. Excl. the impact of forex losses & amortisation on FCCB, net profits declined by 53% QoQ to Rs145mn.

● **Margins expected to remain subdued in Q4 due to ramp up costs**

Higher costs pertaining to a new deal ramp up for an existing domestic client are expected to have an impact on margins and profitability in Q4 as well since the deal would begin contributing to revenues only from the beginning of FY10.

● **Healthcare vertical coming under pressure**

The recession in the U.S. is beginning to have an impact on the healthcare vertical, which so far was reporting stability. As a result, Firstsource's offerings such as enrollment services and collections is expected to face headwinds going forward. We believe that the deteriorating environment can lead to an elongation of envisaged benefits such as cross selling offerings by leveraging the MedAssist acquisition.

● **Outlook on U.S. collections business uncertain**

Though FSL has historically witnessed an uptick in collection revenues in Q4, increasing delinquency and charged off rates coupled with higher unemployment could impact FSL's ability to significantly improve liquidation rates going forward.

● **Profit growth would be negative in FY09**

With revenues under pressure and costs escalating due to anticipated ramp up's, FSL is expected to witness significant pressure on its margins this year which would lead to a profit de-growth in FY09. (excl. MTM losses but incl. ammortisation of FCCB).

VALUATIONS AND RECOMMENDATION

Though the pipeline of deals remains stable, the recessionary environment in key markets continues to cloud future visibility over revenues as sales cycles remain disrupted. Therefore, with earnings growth prospects in a phase of uncertainty, we expect valuations to remain under pressure and hence maintain our 'HOLD' recommendation.

KEY FINANCIALS (CONSOLIDATED)					
Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	8,298	12,988	17,141	18,889	19,932
Growth (%)	51.2	56.5	32.0	10.2	5.5
Op. Profits	1,644	2,310	2,229	2,360	2,466
Op. Marg.(%)	19.8	17.8	13.0	12.5	12.4
Net Profits	973	1,316	957*	996	1,029
Eq Capital	4,251	4,273	5,023	5,023	5,023

KEY RATIOS					
	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	1.9	2.6	1.9*	2.0	2.0
ROCE (%)	12.1	10.0	5.1	5.1	5.3
RONW (%)	14.8	11.6	7.4	7.0	6.7
P/E (x)	5.7	4.2	5.8	5.5	5.4
EV/Sales (x)	0.4	1.3	0.9	0.7	0.6
EV/EBDIT (x)	2.0	7.1	6.7	5.7	4.9

* Excl. MTM losses

Change in USD Revenues Estimates and Assumptions

Rs mn	Prev. Estimates		Revised Estimates		% Change	
	FY2009	FY2010	FY2009	FY2010	FY2009	FY2010
USD Sales	387	414	387	404	-	(2.4)
Avg USD/INR	45.1	46.8	44.4	46.8	(1.6)	-

Vertical Mix

USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
BFSI	25.7	25.6	24.1	26.7	27.1	25.6	22.8
QoQ Growth (%)	(16.3)	(0.4)	(5.9)	10.8	1.5	(5.5)	(10.9)
YoY Growth (%)	16.7	13.0	6.3	(13.1)	5.7	(0.1)	(5.5)
Telecom & Media	30.7	31.1	30.8	27.3	30.2	32.5	31.8
QoQ Growth (%)	46.0	1.3	(1.0)	(11.4)	10.6	7.6	(2.2)
YoY Growth (%)	200.2	138.6	51.3	29.4	(1.8)	4.8	3.3
Healthcare	9.5	12.5	38.3	37.0	38.2	38.9	40.8
QoQ Growth (%)	0.3	31.6	206.4	(3.4)	3.2	1.8	4.9
YoY Growth (%)	347.2	351.8	1255.6	291.2	303.0	211.0	6.5
Others	3.3	2.7	2.6	2.7	2.5	2.5	3.0
QoQ Growth (%)	81.8	(18.2)	(3.7)	3.8	(7.4)	0.0	20.0
YoY Growth (%)	51.5	(5.6)	(10.1)	48.6	(26.3)	(9.0)	14.1
% of Revenues							
BFSI	37.1	35.6	25.2	28.5	27.7	25.7	23.2
Telecom & Media	44.4	43.2	32.1	29.1	30.8	32.7	32.3
Healthcare	13.7	17.4	40.0	39.5	39.0	39.1	41.5
Others	4.8	3.8	2.7	2.9	2.5	2.5	3.0

Geographic Mix

USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
USA	31.1	32.2	56.9	57.7	60.6	62.0	63.1
QoQ Growth (%)	0.2	3.5	76.7	1.4	5.0	2.3	1.8
YoY Growth (%)	70.3	66.2	170.9	86.0	94.8	92.4	10.8
UK	30.5	30.1	28.7	27	27.3	26.7	25
QoQ Growth (%)	2.6	(1.3)	(4.7)	(5.9)	1.1	(2.2)	(6.4)
YoY Growth (%)	76.9	45.4	11.3	(9.2)	(10.2)	(11.3)	(13.0)
India	7.5	9.5	10.1	8.9	10.0	10.6	9.9
QoQ Growth (%)	343.3	26.7	6.3	(11.9)	12.4	6.0	(6.6)
YoY Growth (%)	664.3	720.2	473.3	422.7	32.5	12.2	(1.2)
RoW	0.1	0.1	0.1	0.1	0.1	0.2	0.4
QoQ Growth (%)	(26.8)	-	-	-	-	100.0	100.0
YoY Growth (%)	26.2	16.0	(1.7)	(50.5)	29.2	38.4	310.8
% of Revenues							
USA	44.9	44.8	59.4	61.6	61.8	62.3	64.1
UK	44.0	41.8	30.0	28.8	27.9	26.8	25.4
India	10.9	13.2	10.5	9.5	10.2	10.7	10.1
RoW	0.2	0.2	0.1	0.1	0.1	0.2	0.4

Delivery Mix							
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
Offshore	42.2	43.9	42.3	39.3	41.2	42.0	40.1
<i>QoQ Growth (%)</i>	17.1	4.0	(3.6)	(7.1)	4.8	1.9	(4.5)
<i>YoY Growth (%)</i>	-	39.6	14.1	9.1	(2.5)	(4.3)	(5.2)
Onsite	27.0	28.1	53.6	54.3	56.8	57.5	58.4
<i>QoQ Growth (%)</i>	0.1	4.1	90.7	1.3	4.6	1.2	1.6
<i>YoY Growth (%)</i>	-	182.7	357.8	101.3	110.5	105.1	8.9
% of Revenues							
<i>Offshore</i>	61.0	61.0	44.1	42.0	42.0	42.2	40.7
<i>Onsite</i>	39.0	39.0	55.9	58.0	58.0	57.8	59.3

Client Mix							
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
Top Client	12.8	12.5	12.5	10.2	9.7	10.0	10.3
<i>QoQ Growth (%)</i>	36.3	(2.3)	-	(18.4)	(4.9)	3.1	3.0
<i>YoY Growth (%)</i>	127.5	83.5	42.7	8.7	(24.2)	(20.5)	(17.1)
Top 5 Clients	32.3	32.4	31.6	29.2	30.3	32	30.9
<i>QoQ Growth (%)</i>	6.8	0.3	(2.5)	(7.6)	3.8	5.6	(3.4)
<i>YoY Growth (%)</i>	68.4	50.0	44.1	(3.2)	(6.1)	(1.0)	(2.3)
Top 5 (excl Top)	19.5	19.9	19.2	19.0	20.6	22.1	20.6
<i>QoQ Growth (%)</i>	(6.5)	2.1	(3.5)	(1.0)	8.4	7.3	(6.8)
<i>YoY Growth (%)</i>	43.8	34.5	45.1	(8.6)	5.8	11.3	7.3
Non Top 5 Clients	37	39.6	64.2	64.4	67.7	67.5	67.5
<i>QoQ Growth (%)</i>	12.6	7.0	62.1	0.3	5.1	(0.3)	-
<i>YoY Growth (%)</i>	112.4	100.2	139.4	96.2	83.2	70.6	5.1
% of Revenues							
<i>Top Client</i>	18.5	17.4	13.0	10.9	9.9	10.0	10.5
<i>Top 5 Clients</i>	46.6	45.0	33.0	31.2	30.9	32.2	31.4
<i>Non Top 5 Clients</i>	53.0	55.0	67.0	68.8	69.1	67.8	68.6

Headcount & Seat Fill							
USD mn	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
India Headcount	12,814	12,658	13,156	13,159	13,906	15,050	17,991
<i>QoQ Growth (%)</i>	7.7	(1.2)	3.9	-	5.7	8.2	19.5
<i>YoY Growth (%)</i>	-	73.3	51.1	10.6	8.5	18.9	36.8
Overseas Headcount	2,500	3,932	3,934	4,210	4,447	4,526	4,529
<i>QoQ Growth (%)</i>	-	57.3	0.1	7.0	5.6	1.8	0.1
<i>YoY Growth (%)</i>	-	129.5	95.4	68.4	77.9	15.1	15.1
Total Headcount	15,314	16,590	17,090	17,369	18,353	19,576	22,520
<i>QoQ Growth (%)</i>	6.4	8.3	3.0	1.6	5.7	6.7	15.0
<i>YoY Growth (%)</i>	79.9	84.0	59.5	20.7	19.8	18.0	31.8
Seat Capacity	11,581	13,545	13,885	14,989	14,968	15,538	17,715
<i>QoQ Growth (%)</i>	3.8	17.0	2.5	8.0	(0.1)	3.8	14.0
<i>YoY Growth (%)</i>	70.7	66.1	45.5	34.3	29.2	14.7	27.6
Seat Fill (%)	76.0	77.0	75.0	73.0	76.0	75.0	74.0

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	17,426	17,141	(1.6)	18,876	18,889	(0.1)
Op. Profit	2,687	2,229	(17.0)	2,849	2,360	(17.2)
Net Profit	1,381	957	(31.0)	1,492	996	(33.0)
Diluted EPS	2.7	1.9	(31.0)	3.0	2.0	(33.0)

Financial Results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net Sales	4,442	3,737	18.9	12,771	9,232	38.3	12,988
Expenditure	3,987	3,160	26.2	11,066	7,555	46.5	10,679
Personnel Cost	2,683	2,124	26.3	7,480	5,005	49.4	7,120
Operating Cost	1,304	1,036	25.9	3,585	2,549	40.6	3,558
Operating profit	455	577	(21.1)	1,705	1,677	1.7	2,309
Other Income	(11)	88	(112.4)	(817)	324	(351.9)	349
PBDIT	445	665	(33.2)	888	2,001	(55.7)	2,659
Interest	10	195	(95.1)	119	155	(23.3)	366
Depreciation	285	231	23.1	690	634	8.8	861
PBT	151	239	(37.1)	79	1,213	(93.5)	1,432
Provision for current tax	33	37	(11.1)	180	114	58.2	288
Provision for deferred tax	-	-	-	-	-	-	(184)
Fringe benefit tax	-	-	-	-	-	-	23
PAT	118	202	(41.9)	(101)	1,099	(109.2)	1,305
Extra-ordinary Items	(2)	4	(1)	(1)	6	(1)	10
PAT after extra-ordinary	116	206	(44.1)	(102)	1,105	(109.2)	1,316
PAT (Excl MTM & Forex Losses)	145	206	(29.6)	758	1,105	(31.5)	-
Equity Capital	4,282	4,252	0.7	4,282	4,252	0.7	4,273
Reserves (excl. rev. res.)	-	-	-	-	-	-	7,764
EPS for the period (Rs)	0.3	0.5	(42.3)	(0.2)	2.6	(109.1)	3.1
EPS (excl MTM & Forex Losses)	0.3	0.5	(30.1)	1.8	2.6	(32.0)	-
Book Value (Rs)	-	-	-	-	-	-	28
OPM (%)	10.3	15.4		13.4	18.2		17.8
NPM (%)	2.6	5.4		(0.8)	11.9		10.1
Exp. (% of Net SL)							
Staff Cost	60.4	56.8		58.6	54.2		54.8
Operating Cost	29.3	27.7		28.1	27.6		27.4

Income Statement	2006	2007	2008	2009E	2010E	2011E
Revenues	5,487	8,298	12,988	17,141	18,889	19,932
<i>Growth (%)</i>	<i>70.5</i>	<i>51.2</i>	<i>56.5</i>	<i>32.0</i>	<i>10.2</i>	<i>5.5</i>
Total Expenditure	4,689	6,654	10,678	14,912	16,529	17,466
Operating Profit	799	1,644	2,310	2,229	2,360	2,466
<i>Growth (%)</i>	<i>54.5</i>	<i>105.8</i>	<i>40.5</i>	<i>(3.5)</i>	<i>5.9</i>	<i>4.5</i>
Other Income	8	102	349	34	82	154
EBIDT	806	1,745	2,659	2,263	2,442	2,620
(-) Interest	85	78	366	30	21	19
(-) Depreciation & Ammortisation	451	641	861	1037	1160	1234
PBT & extraordinary items	270	1,026	1,432	1,197	1,261	1,368
(-) Tax provision	27	60	127	240	264	339
Net Profits	243	966	1,306	957	996	1,029
Minority Interest	4	6	10	-	-	-
PAT	247	973	1,316	957	996	1,029
<i>Growth (%)</i>	<i>37.6</i>	<i>298.3</i>	<i>35.2</i>	<i>(26.8)</i>	<i>4.1</i>	<i>3.3</i>
Fully diluted Eq. sh. O/s (mn no)	502.3	502.3	502.3	502.3	502.3	502.3
Book Value (Rs)	11	23	25	27	29	31
Diluted EPS before Extra Ord.(Rs)	0.5	1.9	2.6	1.9	2.0	2.0

Balance Sheet	2006	2007	2008	2009E	2010E	2011E
<i>Equity Share Capital</i>	2019	4251	4273	5023	5023	5023
<i>Preference Share Capital</i>	1976	-	-	-	-	-
<i>Reserves & Surplus</i>	379	6,458	7,764	8,720	9,716	10,745
Net worth	4,373	10,709	12,037	13,743	14,740	15,768
Total Debt	1,300	1,976	11,279	11,067	11,046	11,046
Deferred Tax liability	(4)	1	1	1	1	1
Capital Employed	5,670	12,685	23,317	24,811	25,786	26,815
Fixed Assets	1,154	1,802	2,323	2,155	1,476	942
Net current assets	444	4,311	2,227	3,888	5,543	7,105
Investments	-	1,153	-	-	-	-
Goodwill	4,073	5,419	18,768	18,768	18,768	18,768
Total Assets	5,670	12,685	23,318	24,811	25,786	26,815

Cash Flow Statement	2006	2007	2008	2009E	2010E	2011E
PBT & extra-ordinary items	270	1,026	1,432	1,197	1,261	1,368
Depreciation	451	641	861	920	1,020	1,070
Interest & dividend inc.	(9)	(58)	(349)	(34)	(82)	(154)
Interest paid	85	122	366	30	21	19
Tax paid	(35)	(67)	(127)	(240)	(264)	(339)
(Inc)/Dec in working capital	(403)	(674)	(498)	(457)	(211)	(96)
Other Adjustments	12	(75)	-	-	-	-
Cash from operations	371	916	1,685	1,416	1,745	1,868
Net capital expenditure	(660)	(2,992)	(14,730)	(752)	(341)	(536)
Net investments	-	(1,100)	1,153	-	-	-
Interest recd	7	45	349	34	82	154
Cash from investing activities	(653)	(4,047)	(13,228)	(718)	(259)	(382)
Issue of eq. shares	16	5,400	22	750	-	-
Issue of Preference Shares	(0)	-	-	-	-	-
Change in debt	252	693	9,303	(212)	(21)	
Interest Paid	(85)	(122)	(366)	(30)	(21)	(19)
Cash from financing activities	183	5971	8960	508	(42)	(19)
Inc/Dec. in cash	(99)	2,840	(2,583)	1,206	1,444	1,467

Key Ratios	2006	2007	2008	2009E	2010E	2011E
OPM (%)	14.6	19.8	17.8	13.0	12.5	12.4
ROACE (%)	6.6	12.1	10.0	5.1	5.1	5.3
ROANW (%)	10.9	14.8	11.6	7.4	7.0	6.7
Sales/Total Assets (x)	1.0	0.7	0.6	0.7	0.7	0.7
Debt:Equity (x)	1.4	0.2	0.9	0.8	0.7	0.7
Current Ratio (x)	1.4	4.1	2.0	2.2	2.6	2.9
Debtors (days)	67	60	60	61	61	61
Inventory (days)	0.0	0.0	0.0	0.0	0.0	0.0
Net working capital (days)	18	57	51	48	48	47
EV/Sales (x)	1.2	0.4	1.3	0.9	0.7	0.6
EV/EBIDT (x)	8.3	2.0	7.1	6.7	5.7	4.9
P/E (x)	22.4	5.7	4.2	5.8	5.5	5.4
P/BV (x)	1.0	0.5	0.4	0.4	0.4	0.4

T E A M

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