



FIRSTSOURCE SOLUTIONS LIMITED
Q1FY26 EARNINGS CONFERENCE CALL
JULY 30, 2025

MANAGEMENT:

MR. RITESH IDNANI,
MD & CEO

MR. DINESH JAIN
CFO

Moderator: Ladies and gentlemen, good day and welcome to the Firstsource Solutions Limited Q1FY26 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone phone. Please note that this conference is being recorded.

On this call, we have Mr. Ritesh Idnani – MD and CEO; Mr. Dinesh Jain, – CFO to provide an overview on Company's performance followed by the Q&A.

Please note that some of the matters that we will discuss on this call including the Company's business outlook are forward-looking and as such are subject to known and unknown risks. These uncertainties and risks are included but not limited to what Company has mentioned in its prospectus filed with SEBI and consequent annual reports that are available on its website.

I now hand the conference over to Mr. Ritesh Idnani. Thank you. And over to you, sir.

Ritesh Idnani: Thank you. Hello, everybody. Thank you for joining us today to discuss our Financial Results for the first Quarter of FY26.

Before I start with the discussion on our quarter performance, I would like to thank each one of our 34,495 Firstsourcers around the world whose passion and commitment to consistently deliver value to clients gave us a healthy start to FY26 and keeps us on track to deliver another year of industry-leading growth despite macroeconomic and geopolitical uncertainties.

Our Q1 Result reflects continued progress on our strategy refresh in the organization over the last seven quarters. Our revenue grew 23.8% YoY and came in at Rs.22.2 billion. In U.S. dollar terms, the growth was 20.7% YoY and 3.6% QoQ at US\$259 million. In constant currency terms, our revenue grew 1.6% QoQ and 19.2% YoY. EBIT margin for the quarter was 11.3%, up 10 basis points QoQ and 30 basis points on a YoY basis. Our net profit was Rs.1.7 billion and the diluted EPS for the quarter was Rs.2.4. This now marks seven consecutive quarters of sequential revenue growth and four consecutive quarters of margin expansion.

Coming to the business highlights.

1. Deal Wins

In Q1, we signed four large deals. As you are aware, we consider a deal with ACV over \$5 million as a large deal. Our total ACV intake in the quarter is amongst the highest over the last five quarters. Let me highlight a few of those deals:

- One of the leading dental health plans in the US selected Firstsource to transform their claims and contact center operations, leveraging AI.
- Firstsource was also selected by one of the largest provider-sponsored health plans to provide member contact services across multiple states.
- A leading regional medical center in the US chose Firstsource to provide consulting and RCM services to help them improve their billing and collections processes.

During the quarter, we also added 17 new logos. This is the highest addition of new logos in a quarter over the last three years and along with continued traction in our large deal wins, underlines the strength of our revamped go-to-market engine, our deep industry and functional capabilities, and our ability to bring automation and AI into the mix that is helping us gain market share even in an uncertain environment. What is more, the new logo addition is happening at a larger scale. The average deal size from the new logos has increased by 16% over the last four quarters.

Our new client additions in Q1 include nine strategic logos. As I have stated in the past, we define a strategic logo as one where we see the potential for at least \$5mn+ relationship, and we run a structured program to handhold and monitor such relationships to grow them at an accelerated pace. In fact, one of the large deals that we won in Q1 was from a strategic logo we had added in Q3FY25.

I would also like to highlight that there has been a market shift in both the scale and profile of our large deal wins. Over the last five quarters, we have won deals that are multi-year, sole-source deals that have been proactively designed, and deals that have non-linear commercial constructs such as the BPaaS deal that we announced last quarter. To give you some more color, a combined ACV from such deals has increased by almost 5x, and the average size of a large deal has increased by over 40% over this period. These deals have contributed meaningfully to the internal visibility of our long-term growth markers and guide our optimism on sustaining top-docile industry growth in FY26 despite the macro uncertainties. However, majority of them are not regular outsourcing deals, but large transformative programs and hence have a staggered ramp-up curve that is different from standard deals. Thus, their conversion into reported revenue happens over an extended period in a non-linear manner. You may want to keep this in mind while building your annual revenue growth expectations.

Let me now provide you with a deep dive into our performance and outlook for each of our verticals.

2. Vertical commentary

Starting with **banking and financial services**, in Q1 of FY26, our BFS vertical was flat QoQ and grew 7% YoY in constant currency terms. We added two new logos in this vertical during the quarter. As I have highlighted earlier, we have invested over the last few quarters

in strengthening our sales and solutions team in this vertical, especially in North America, to broad base our presence in existing clients as well as expand our footprint into adjacent segments. We are now taking a much wider capability portfolio to both clients and prospects, and this has helped lower the macro-dependency in the business. For example, while interest rates continue to remain elevated and remain an overhang in the mortgage market, our initiatives such as consulting-led workshops to identify areas of cost takeout have helped us expand our market share, especially amongst our monoliner customers. We are also partnering more closely with mid-size banks and fintech players as they step up investments in platform modernization and look to elevate the customer experience.

In **healthcare**, we saw a sequential growth of 2.3% and a YoY growth of 13.5%. We added eight new logos in this vertical, and all our large deals in the quarter were in this vertical. Healthcare continues to be strong and strategic growth vertical for us. Our broad execution footprint across the healthcare value chain and relationships with 12 of the top 15 health plans in the U.S. put us in the leadership position to address our clients' evolving needs. While the sector is seeing regulatory and cost headwinds, client decision-making has been steady and deal ramp-ups are on track. We remain confident of an accelerating growth trajectory in this vertical, supported by the visibility from recent large deal wins.

Our **CMT** vertical delivered 6% growth QoQ and 18% growth YoY in constant currency. We added seven new logos in Q1. This remains one of our fastest-growing segments, driven by strong engagement with a lot of the technology companies in Silicon Valley across both our core offerings as well as newer, non-traditional solutions that support the integration of AI into their foundational models and their product ecosystems. We continue to see a well-balanced pipeline here, spanning both traditional media companies as well as digital-first and new-age technology companies.

Lastly, coming to our **diverse** portfolio, which comprises our retail and utilities business, we saw a 3% QoQ decline in constant currency terms, mainly due to seasonal softness in the utilities business. However, we see a healthy deal pipeline in this portfolio, in both the retail and utilities verticals, which should translate to a broad-based growth in the coming quarters.

3. Geographical commentary

From a geography perspective, North America grew at 5% QoQ and 22% YoY in constant currency terms. We expect growth to remain healthy and broad-based across our three core verticals in North America. Europe was down 7% QoQ, mainly due to seasonal softness in our UK-centric utilities business. As we highlighted earlier, macroeconomic softness and regulatory changes in the UK have led to many clients to accelerate their shifts towards offshore and nearshore delivery locations over the last few quarters. We believe that a large part of this transition is now behind us, and we expect the optical growth to normalize from Q2 onwards.

While decision-making has been elongated in the broader market, our pitch for transformational programs and near-shore delivery capabilities are resonating well with clients and prospects in the region. We added 17 new logos in Q1 and exited the quarter with a well-qualified deal pipeline, the highest in our history. Australia continues to perform well, with strong growth on the back of ramp-up in deals that we won in FY25. Overall, we remain optimistic about our trajectory in this region.

4. People

On the people front, we had a closing headcount of 34,495 associates, which is a decline of 156 versus the last quarter. We continue to right-shore our delivery headcount with close to 80% of gross hires at offshore and nearshore locations in Q1. Our trailing 12-month attrition rate declined further to 28.9%, which translates to almost a 13-percentage-point decline over the last eight quarters. I am also proud to share that Firstsource was ranked amongst India's Top 100 Best Companies to Work for in 2025 by the Great Place to Work and was also named amongst the Top 100 Inspiring Workplaces both in the US and UK. We were also named amongst the top three Indian employers in the UK by Grant Thornton.

5. Awards/recognitions and sustainability

Firstsource also continues to be positively recognized by leading analysts for delivering strong client value and driving innovation through technology-led solutions in our focus markets. Everest Group ranked us amongst the Top 25 BPS companies globally, but more importantly recognized us as the fastest growing on an organic revenue basis. ISG also featured us in the Booming 15 based on the annual value of commercial contracts awarded over the last 12 months, now for the third consecutive quarter.

On the ESG front, we achieved an A score in the Supplier Engagement Assessment from CDP. Earlier this month, we also released our 2025 ESG report, outlining our progress as well as our priorities across environmental, social, and governance dimensions.

6. Pastdue Credit acquisition

As you may be aware, we recently announced that we have signed an agreement to acquire Pastdue Credit (PDC), a company headquartered in Scotland. The acquisition is subject to regulatory approvals and is expected to close in the current quarter. As you know, we Rank in the top three companies in the US debt collection market. However, our footprint in the UK debt collection market has been small. The proposed acquisition of PDC was done with an objective to plug this gap. The UK debt collection market has an addressable market size of close to £2 billion, and we believe it is ready for digital disruption. PDC gives us a strong foothold to bring our technology and AI-led digital collections capabilities to this market. They have strong relationships in the utilities, telecom, financial services, and the public sector with minimal client overlap. We see significant scope to take our largest service portfolio and our near-shore, offshore delivery capabilities to PDC's client base. I believe

that PDC is a strong asset with deep client relationships. It has been growing its revenues at a double-digit and has higher margins. So, it will be both margin accretive as well as EPS accretive.

With that, let me now turn over the call to Dinesh to give you a detailed color on the quarterly financials. I will come back to talk about our progress on our strategic priorities as well as the outlook for FY26.

Dinesh Jain:

Thank you, Ritesh, and hello, everyone. Let me start by taking you through our quarterly financials:

Revenue for Q1FY26 came in at Rs 22.2 billion or US\$259 million. This implies a YoY growth of 23.8% in the rupee term and 20.7% in US\$ terms. In constant currency, this translates to a YoY growth of 19.2%.

Our operating profit stood at Rs 2.5 billion, up 26.8% over Q1FY25 and translates to an EBIT margin of 11.3%, up 10 bps sequentially and 30bps on YoY basis, and within our guided band of 11.25% to 12%. You will notice a sharp, 15% QoQ jump in the other operating costs. This is mainly due to the higher partner costs. As you know, we are actively leveraging our partner ecosystem to pioneer new service offerings and deliver value to clients, like the BPaas deal we announced in Q4. So you will see part of our execution costs moving out of manpower costs to other operating costs.

Profit after tax came in at Rs 1.7 billion or 7.6% of the revenue for the quarter. Our Profit after tax grew 25.2% YoY and 5.4% QoQ on reported basis.

The key highlight for the quarter was our strong cash conversion. Our OCF to EBITDA was 102%, highest in the last six quarters driven by improved working capital management. Normalization of Capex pushed FCF to PAT to 196%, again the highest in last six quarters.

Effective tax rate was 20.6% for Q1 which is within the guided 19-21% range for FY26.

DSOs came down to 65 days in Q1 versus 70 days in the previous quarter.

Our cash balance including investments stood at Rs 3.1 billion at the end of Q1. Our net debt stands at Rs 11.2 billion as of 30th June 2025 versus Rs 13.2 billion as of 31st March 2025 and Rs 9.7 billion as of 30th June 2024.

We continue to invest in expanding our execution infrastructure. In Q1, we added new seating capacities in Mumbai, Bangalore and Gurugram.

Our hedge book as of 30th June 2025 was as follows: we had coverage of GBP 88.5 million for the next 12 months with an average rate of Rs 112 per Pound and coverage of USD 179.1 million with an average rate of Rs 86.7 per US\$.

As Ritesh mentioned, we recently signed share purchase agreement to acquire Pastdue Credit Solutions in the UK. The acquisition is subject to FCA approval and should hopefully come through the course of the current quarter. The total consideration is GBP 22 million which includes the upfront payment that will be paid post the regulatory approvals, as well as the earnouts that will be paid over the next 12 months linked to defined targets.

This is all from my side. I will hand over back to Ritesh to talk about the strategic priorities and outlook.

Ritesh Idnani:

Thank you, Dinesh. As you are aware, enterprises today are navigating through twin challenges of a significantly elevated level of uncertainty in the global economic and geopolitical environment and a concurrent technological disruption that is fundamentally altering how businesses operate, compete, and create value. This convergence of unpredictability and transformation requires us to rethink traditional models, accelerate innovation cycles, and build more agile operating structures.

The UnBPO playbook that we introduced earlier this year is our blueprint of how the new order is taking shape and how we are preparing ourselves to succeed in it. UnBPO is not just about bringing gen AI or agentic AI into our solutions and services, rather, it is a reimagination of the entire business model from every angle.

The UnBPO approach blurs the line between services and software and creates the services as a software paradigm as technology gets infused in all parts of the services ecosystem through modular platforms, automation and AI-driven workflows, often delivered through non-linear commercial constructs. From an addressable market perspective, services and software can no longer be seen as distinct buying categories. In fact, a leading research analyst, HFS, estimates the services as a software market as a \$1.5 trillion TAM.

We are already putting this model into action. For instance, for a health plan in the U.S., we have implemented a gen AI-powered automation solution with claims decision agents and copilots to completely redefine the claims operations landscape for all of their lines of business, including Medicare, Medicaid, and Marketplace. This is estimated to drive a meaningful cost save over the deal term, even as we shift towards an outcome-based commercial model. One of the largest building societies in the world has partnered with us to completely reimagine its banking and services operations, economic crime prevention, and customer support, covering over 16 core processes and 99 sub-processes. Our UnBPO approach to design scalable workflows using AI, automation, and analytics is aimed at improving the net promoter score as well as bringing savings of over 50% over the next three years.

One of the core elements of UnBPO is the re-engineering of talent sourcing and deployment models. Traditional markers like headcount addition as a lead indicator of business demand are becoming less relevant and optimization of the employee pyramid as a margin lever is

being redefined, as AI agents and gig-workforce get co-deployed along with human agents and contract commercials shift to output/outcome-based structures.

The recruitment process itself, which has historically been manual, time-consuming, and has high administration costs, needs to be reimaged. We have automated the entire process for volume hiring from automating job posting and parsing of candidate applications to doing initial AI-based interviews and AI-based assessment, all resulting in improved efficiency while ensuring a seamless experience for candidates and recruiters. The pilots have shown up to 50% reduction in the hiring cycle time, which implies lower associated costs. We plan to have 2/3rd of our volume hiring through this process by March 2026.

Another foundational tenet of UnBPO is the orchestration of strategic partnerships to co-create unique value propositions and pioneer new service offerings, unlike the traditional model that uses partnerships mainly to fill skill-gaps. At Firstsource, we recognized this early. You may recall, one of my first hires after joining the company was a leader dedicated to drive technology partnerships across the organization. Since then, we have onboarded over 50 strategic partners to augment our capabilities – both within our focus verticals as well as horizontal offerings. These include hyperscalers to innovative startups who help solve specific pain points and business problems for our customers.

A great example of how we are bringing this altogether is the \$50 million plus ACV BPaaS deal that we announced last quarter with a mid-market U.S. health plan. This is a highly integrated solution where we are orchestrating partnerships with more than eight different vendors to deliver an end-to-end claims administration service.

These initiatives are just a few examples of how UnBPO is not just a concept, but a live working model that is already delivering tangible outcomes for our customers. We are systematically rewiring the way value is created and delivered in our industry. Importantly, this is seeing a strong inbound interest from clients and prospects, many of whom have asked for follow-up workshops with their C-suite leadership teams to explore the tenets and assess their readiness for the same.

Overall, I am pleased with the progress we are making on our agenda to build a resilient and durable business with industry-leading growth. Our large deal wins have now been three or more for the past five quarters. We are adding new logos at an accelerated pace, and we continue to improve on the mining of our existing client portfolio. At the same time, we have been diligent in ensuring that we fund our investments in go-to-market initiatives and capability expansion through an identified set of cost rationalization programs. As you can now see, Q1 is the fourth straight quarter of sequential margin expansion.

This gives us the confidence to raise our revenue guidance for FY26 to 13% to 15% in constant currency. This does not include any contribution from Pastdue Credit Solutions

since we are still awaiting regulatory approvals for the transaction. We continue to see our FY26 EBIT margin in the 11.25% to 12% band in FY26.

This concludes our opening remarks. And we can now open the floor for questions. Operator, over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Girish Pai from Bank of Baroda Capital Markets. Please go ahead.

Girish Pai: Ritesh, this increase in guidance at the lower end, from 12% to 13%, was it because Q1 turned out to be better than what you expected? Or is it that you are expecting the next nine months to be better than what you were anticipating three months back?

Ritesh Idnani: As we have stated in the past as well, our guidance is based on a clear line of sight that we have to the business over FY26. And when we raise the lower end of the guidance, clearly the way we have tried to do this is it's based on having a very clear line of sight to the lower end of the guidance and the upper end of the guidance is based on how things such as pipeline conversion, etc. play out over the guided period.

Our guidance also does not include any changes in the macro environment, but at the same time, as you are also aware, while we are not commenting on specific numbers, directionally we do expect that the guidance assumes an accelerated growth trajectory.

Girish Pai: How are demand conditions today compared to, say, three months back? Are they worse, better or broadly the same?

Ritesh Idnani: So, on one hand, the macro uncertainty as well as the geopolitical environment continues to play out. So, it is not that we are seeing anything different out there. So, I think that's been a constant pretty much over the last several quarters.

However, I think the proposition that we are taking to the market continues to resonate. I think the fact that we are able to present differentiated propositions and now, particularly on the back of the UnBPO playbook, which is almost creating a reset of how processes and workflows are reimagined in every corporation, is creating demand. And I think that's presenting opportunity to us.

So, we think there is going to be duality in terms of how different players in the market might perceive the current environment, but at this stage for us, if I just look at the lag indicators as well as the lead indicators, if I take the outcomes for Q1, we obviously had a very good quarter from a new logo addition standpoint, 17 new logos, of which nine were strategic logos, which is for us an all-time high. What that does do is it broadens our client base and gives us a very solid foundation for growth.

At the same time, we exited the quarter with a pipeline which is the highest in our history, which gives us again a very strong set of deals to bank on in the quarters ahead as well. And that gives us comfort and confidence in terms of what we are seeing in the environment, but more importantly, in our ability to differentiate in what might be still an uncertain macroeconomic environment.

Girish Pai:

Just two last questions. One is the \$1 billion mark has been achieved already, at least from a run rate perspective. Any new targets that you want to set for yourself? And when is that going to happen? And the quantum of the hike? Would it be similar to what you had in the previous years?

Ritesh Idnani:

No, thanks for that question, Girish. As you are aware, we reached our \$1 billion aspiration 4 quarters in advance of what we had publicly guided. For us, in some sense, this is a proof point that our strategy refresh is in the right direction. And personally for me, the focus is really on building a consistent, predictable, and high-growth business model so that we create a future-proof organization. At the same time, we keep reviewing our long-term aspirations internally. And I will be sharing any updates with you in due course as we are ready to discuss this in public itself. So, that's comment one.

On the wage hikes itself, as you are aware, different players have responded to this in the marketplace in a variety of ways. From our vantage point, we will be having the annual wage hike in two phases this year. The first phase will cover junior employees and will be effective from July 1st. We will cover the middle and senior management in the next phase that will be effective from October 1st, 2025. As you know, we typically absorb the impact of wage hikes. So, from a margin perspective, you should still see a sequential margin expansion through the year.

Girish Pai:

So, on this wage hike part, were the wage hikes in the previous years were given altogether at one shot on 1st of July and therefore, this year's wage hike split in two quarters, is that a little different?

Ritesh Idnani:

So, last year we gave the wage hike all at one shot in July, on July 1st itself. Prior to that, there was a little bit of variability in terms of how we did it. And this year, I think just given the environment and what we are seeing, we are just being, you know, we are staggering it in two phases across the entire organization.

Moderator:

The next question is from the line of Shradha Agrawal from AMSEC. Please go ahead.

Shradha Agrawal:

So, congratulations on a steady quarter, Ritesh, once again. And two questions. First is on your acquisitions policy. So, in less than two years of time frame that you have been around, we have seen you doing three acquisitions already. So, what is our policy and acquisitions going forward?

And secondly, given that we have wage hikes coming through in 2Q and 3Q, so what is our confidence level on achieving our margin guidance for the year given that start to the year, at least on margin front, has been a little tepid?

Ritesh Idnani:

Yes, no, thank you for the question, Shradha. Look, there is no change in our inorganic thesis itself, right? We have a dedicated corporate development team that actively keeps looking for opportunities that will enhance our capabilities, assist us in furthering the depth and domain that we already have and bring in process or analytics to add significant value to our existing clients. At the same time, we have had a very strong preference for companies that will be EBIT and EPS accretive, like what you saw with PDC. At the same time, there is no defined frequency or targets in terms of number of acquisitions itself.

What is critical for us is we will not look to do acquisitions for revenue sake, but it has to have a very clear value to us, either in terms of plugging a capability gap or giving us distribution access in our chosen markets itself. So, just from that vantage point, that's the way we are approaching the entire acquisition side of the house.

Your second part of the question was, with the wage hikes, does it have any bearing in terms of margins? No, we continue to retain the margin band. As you are aware, we have 37 clear drivers that are there in the business. And we feel very good about the progress that we are making on the same. And we feel that these will continue to yield results in the quarters to come. So, we feel comfortable retaining the margin guidance that we had of 11.25 to 12%. And at the same time, if you go back a year ago, one of the comments that I had made was that we will have a 50 to 75 basis point margin improvement every year starting FY26. We still continue to believe in the same.

Shradha Agrawal:

No, this is coming from the context that much of the offshore shift is already in our base now. So, incrementally going into second half of the year and with the investments continuing the large scale ramp up that we have signed in FY25, so what are the main margin levers that we have to pull up margins from the 1Q number that we have reported?

Ritesh Idnani:

Yes, we still think that the onsite to offshore shift is still an opportunity for us. I don't think we are completely done then. But at the same time, we are also continuing to put work on optimizing our sourcing and staffing strategies. We are clearly looking at the employee pyramid and how we staff our teams as well. Technology, AI and automation is something that we are looking proactively across the life cycle of the engagement to drive further efficiencies. We are also looking at opportunities where we can centralize and automate and offshore roles, where AI and agentic AI workflows can come into play. We had also identified opportunities where we can do more for less and not add any additional headcounts.

So, I think each of these levers in themselves is a part of those 37 margin drivers that we have. And I think that in turn gives us confidence in terms of meeting the guidance that we had provided.

Moderator:

The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal:

Ritesh, two questions from my side. One is the banking vertical was a bit soft this quarter. But just to dig deeper into that, anything that you would call out, what are the conversations in the sector like? And that was the flattish quarter and this was more like a quarterly aberration.

Secondly, just wanted to take your comments on the overall industry landscape that we are looking at right now, given the context that one of our large competitors was acquired by an European firm very recently in a mega billion-dollar deal. So, what exactly is the prospect that we are looking at? A company acquiring a large competitor in terms of size is the Gen AI thing is becoming more and more beneficial for the BPO industry and that is where we see the value. Anything that you can give a color in that context would be really helpful.

Ritesh Idnani:

Let me start by addressing the question on the financial services side and then I will come to the industry landscape and what we were seeing. So, look at our financial services vertical as almost two different storylines. One in terms of what played out in North America and one in terms of what played out in Europe.

If you look at our Europe revenue contribution, that actually declined QoQ and some of that is because of the difficult, an uncertain environment that's been out there, which we have been consistently calling out. The net effect of that is there has been a rebalancing of some of the work between onshore to nearshore and offshore. And we pretty much believe that we are at the tail end of that. So, that obviously has created a deflationary effect on the revenue side. We feel very good actually about the pipeline that we see in Europe with the banks building societies as well as the fintech. So, actually, we are exiting the quarter with a very strong pipeline in Europe.

North America has actually been very resilient for us. We have seen success both in front office as well as back-office work as well as some of the newer segments that we have been focusing on putting effort in. At the same time, we have also benefited from expanding our footprint in some of our collections-only accounts, which was a key focus in the cross-sell, upsell side to expand into other service lines. So, again, actually, the pipeline in North America on the financial services side is pretty healthy and strong. So, we think that this quarter is, I wouldn't read too much into the numbers or the growth there. We feel good about the vertical.

Industry landscape, I won't comment specifically about the transaction itself, but what I think you should look at it is, if anything else, it's validating what we have been calling out with the un-BPO playbook. The traditional boundaries between IT and operations are blurring. The traditional boundaries between front-office and back office are blurring. And one of the things that I talked about in my opening comments about the entire services as a software playbook, I think, things like these are probably validation of where the industry I think is headed for as well.

However, it doesn't change any other competitive dynamics for us. Firstly, I think our positioning through what we are doing with un-BPO is very distinct. We are not trying to become a systems integrator or replicate the traditional IT plus BPO model. Our focus is actually on re-imagining the entire operations and process value chain by bringing AI, modular platforms, outcome-based models together to transform how clients buy and consume capabilities from us. And we are going to our clients and prospects with this differentiated value proposition, and they are clearly liking it. Secondly, clients actually value agility and co-creation areas where we can move much faster than larger players. Our right size is clearly one of our core competitive advantages. And you can see that both in the number and nature of our recent deals.

One of the final things I will make as a comment is, I think we are in the classic innovator's dilemma play. And if you go back in time from a historical standpoint, large players tend to be reluctant to cannibalize. They tend to play on defense, and they are slower to respond. And we believe size does not matter as much as relevance does. And therefore, this opportunity actually is well suited for players of our size where we have the right depth of domain, the technology contextualized to the domain, the ability to drive business outcomes, and the nimbleness, agility, and scrappiness to move at speed to solve complex business problems for our clients. And I think, therefore, you will see maybe combinations of this sort almost as a defensive play to try and account for lack of revenue growth otherwise.

Vibhor Singhal:

So, basically, I mean, even if, let's say, a large IT services company is looking at acquiring a BPO business, you don't see that they are a combined offering of services plus BPO, you don't see that as a threat to the pure BPO model that we continue to maintain, given our size that you are looking at. Is that right understanding that you are trying to convey?

Ritesh Idnani:

I think yes, that's absolutely correct. And I want to draw your attention to a couple of industry reports that came out. So, Everest published a report last year where they called out the fact that the companies that are growing the fastest in the operation space are the pure play BPO players, not the integrated IT plus BPO players. And a lot of it I think will come down to depth of domain. I actually don't think that players who don't have anything to stand on will also grow.

So, pure play BPO players who are everything to everybody and therefore nothing to anybody will also struggle. But I think if you have a clear competitive moat which is on the

back of depth of domain and then you are able to use technology which is very specific to the domain, I think there is a very clear proposition to continue to win business and differentiate yourself in the marketplace.

Vibhor Singhal:

Just one last bit of peace if I could just care for an explanation. The headcount, just trying to wrap my head around the headcount reduction. So, in this quarter, we had basically the offshore percentage jump up. We had good growth in the revenues. But at the same time, the headcount actually came down. I mean, just trying to understand how these dynamics are coming. If we had a higher offshoring, the headcount reduction looks to be a bit off place. Anything that you would want to comment on or any trend that we can draw from this?

Ritesh Idnani:

Actually, you know, one of the things that we have now been saying consistently for the last few quarters, Vibhor, is the fact that the causality between revenue and headcount is increasingly going to get lesser and lesser as you get into more and more non-linear commercial constructs itself, right? So, you are going to start seeing that. And even with our numbers, if you look at our reported currency in the last three quarters, the revenue has gone up. Our headcount has been around 34,000. And some of that is a function of what I think is going to play out more and more as we sign up for deals which have a very different commercial construct.

Specific to the quarter that went by, two things. One is you saw our CMT vertical grew at a fairly rapid pace. In fact, it was the fastest growing vertical for us in the quarter. And if you look at a lot of the work that we do out there, particularly with clients in Silicon Valley, several of those pieces of work draw on a gig-sourcing model. So, you don't need to hire a permanent headcount to deliver the capabilities that are there. And so you can get the revenue, but you don't necessarily need headcount in the same correlation. So, some of that also played out.

Moderator:

The next question is from the line of Jyoti Singh from Arihant Capital. Please go ahead.

Jyoti Singh:

Sir, I just wanted to understand, like you discussed about UnBPO business. So, how is your UnBPO strategy and AI investment are translating into deal wins or margin improvement? And going forward, what percentage of revenue today is influenced by digital AI, that transformation deals? And how do you see this evolving in the next 12 to 18 months?

And another on the client responding on AI-led productivity modeling, CX, and collections. And are pricing models changing as a result?

Ritesh Idnani:

Let me maybe take a step back since this is the first time we have been talking about the UnBPO playbook in a larger sense. If you look at the traditional outsourcing model, which was labor arbitrage over the last 25 years, it was built for headcount scale, it was built for process, it was built for predictability. It was built for standard services.

However, the world around us does not exist in the same fashion. That is not what clients are expecting today. Today's clients don't associate, headcount is not value, location is not capability, process is not progress. And if you go with those as the fundamental shifts that are there and tech arbitrage usurping whatever labor arbitrage did over the last 25 years, that's the radical mindset shift that we are hoping to impact through the UnBPO playbook itself.

That's why we feel this is an opportunity to rewrite the rules of an industry that has operated in a certain way for the last three decades. What are we seeing as a consequence of that? I think most organizations and enterprises that we deal with, recognize the fact that they need to change, and they need to change fast, especially in an environment which is moving very rapidly because they know that every industry, not just the IT and BPO sector, etc., every industry is going through its own innovator's dilemma moment. And they know that if they do not change, that could mean that they become increasingly less competitive itself. And I think that's the opportunity, and which is why we feel that the UnBPO playbook is receiving such wide traction in the marketplace. So, your third question was related to the CX and collection services. One of the things that's always held us in good stead, if you take our collections business as a case in point, has been the fact that it has been largely outcome-based in terms of the commercial construct that we have. Clients place a certain amount of debt with us. Our revenues are linked to the amount of debt that we can collect. So, there is clear skin in the game. We are able to bring in AI and ML in our digital collections platform to improve the propensity to pay. And all of these as commercial construct are very different than billing for time, which 75% of the IT and BPO industry still does on a time and material basis.

Same on the CX side. Our view is that we can, more than only about 30% to 35% of this industry is outsourced today. Our view is that over the next five years, the percentage of outsourcing will go up, but it will happen in a non-linear fashion. And that I think gives us the opportunity to bring in disruption at scale and at the same time improve share of wallet.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: A couple of questions. First about the margin guidance. If you can give us some sense about what are the puts and takes for lower end and upper end, the way we expect trajectory to play out, what are the variables which you consider to give the range? Second thing is about the PDC acquisition. Now that acquisition operated significantly higher margin than ours. Just want to understand, because we do have a sizable collection business, whether our margin profile will be less identical in the collection business. And if let's say margins are different, what explain the margin difference and whether it is replicable into our business? So, we have that expansion in the margin. That is second question. Third question is about healthcare margin. Now your healthcare margin is maybe fairly low compared to let's say if I look your historical last 5-10 year average kind of thing. If you can

provide some sense about the expected trajectory improvement, I understand because of some of the investment, or deal are likely to ramp up in the over period of time. But just to understand pace of exploration, because it may surprise us positively sometimes, sometimes negatively. So, how one should understand it? Thanks.

Ritesh Idnani:

Thank you for those questions, Dipesh. So, look, at any point in time, there are always various puts and takes in the quarter itself. So, as we look at how the margin piece plays out, but as I mentioned earlier, we have got about 37 broad margin drivers. That's what we are tracking very closely. You have seen over the last 7-8 quarters our onshore, offshore mix has moved fairly meaningfully. 80% of the incremental headcount that we are doing still is offshore and nearshore. And we still see continued opportunities for that number to improve. So, that can be a continued opportunity from a margin perspective. We are also continuing to rationalize some of our facilities, particularly as we move work away from near shore and onshore to the offshore facilities itself. And as that does, it frees up some of the rentals and lease capabilities that are there. We are also looking at some of our low margin and some of the accounts that might not have been yielding the right kind of margin profile to see if we can go out there and improve margins where appropriate. That's helping. We are backfilling for any attrition in a very intelligent fashion. So, we are not going out there and just assuming that we can go out there and we should just go out there and automatically backfill, but instead relooking at every element from an ops excellence standpoint, whether it's around the employee pyramid, the spans, and then trying to see whether there are opportunities, etc. So, it's a combination of all of these factors that play out at any point in time in any quarter. And these, I think, give us a collective degree of comfort on expanding, continue to expand the margins itself over the rest of the year.

Dipesh Mehta:

So, if I look at PDC, the proposed acquisition, their margin profile is almost 2x of where we operate. I am referring to their last years' performance. So, the question is two parts. First is whether our collection business operated similar margin profile. If the answer is no, whether we can replicate a superior margin of PDC?

Ritesh Idnani:

So, firstly, I don't want to talk more about PDC just because we are still awaiting the regulatory approvals, but what we will do is once the acquisition itself is closed and we get the approval from the FCA, I think we will come back and talk more specifics, both in terms of the financials and what it would mean. So, I would request that we hold off on that question until that point in time, because I don't think it's fair for me to comment on something that's still a transaction underway, pending regulatory approval.

Dipesh Mehta:

Yes, but part of the question you can answer, whether our internal collection, Focus on U.S. market, whether our margin profile would be similar to PDC?

Ritesh Idnani:

It's higher.

Dipesh Mehta:

Understand. And maybe last part of the question, if you can answer for healthcare?

- Ritesh Idnani:** So, I think one of the things to see with the healthcare business, if you look at some of the wins that we have had, we have had a larger percentage of wins on the payer side of the business. And historically, the provider side of the business has had a higher margin profile. So, some of the rebalancing of the portfolio that you are seeing is probably what is causing the margin shifts QoQ, but also as some of these deals are ramping up, there is also the cost of growth that's playing out as well for these deals. So, I think as this normalizes, you will see some of the margins also picking up. I mean, even take this quarter that went by, all of our large deals happened in the healthcare portfolio. So, there is going to be a cost of growth that plays out. But I think as we are looking at this, some of those are the puts and takes that we are looking at in a quarter to still continue to deliver margin expansion while accounting for some of the wins that play out.
- Dipesh Mehta:** Understood. Thanks.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.
- Manik Taneja:** Hi, thank you for the opportunity. So, Ritesh, congratulations on the steady performance. I basically had a question with regards to some of the recent industry developments, wherein we have seen a few companies going private, some of them being acquired. And given we have also been acquisitive in the recent period, just wanted to get your thoughts with regards for M&A strategy. Would we always look at smaller tuck-in acquisitions or given the opportunity that we have in the international market, some of these assets are fairly cheap and given the multiples that we enjoy here in India, would love to get your thoughts on this one.
- Ritesh Idnani:** So, I think I kind of gave a little bit of a flavor of our approach towards M&A. So, at end of the day, I am very clear that we have to have a very strong organic growth business as well. M&A is incidental, it's a dart on the board, if it sticks, great. We have also said in terms of design principles for our inorganic thesis is, we will not do acquisitions for revenue sake, even if the multiples are low or very attractive or stuff like that. End of the day, we want to make sure that we are very prudent with our capital allocation. Where we do acquisitions, it's primarily for plugging capability gaps or for distribution access. And their, we are continuously evaluating targets, whether they are small tokens, they could also be larger in size. But we also want to be meaningful that we also want to be prudent that we are doing stuff that fits in line with where we want to take the business itself. So, it's not an acquisition for acquisition sake.
- Manik Taneja:** Sure. The second one, while you called out 37 margin levers, over the course of last 4 to 5 quarters, we have seen our onsite offshore mix improve rapidly. But the margin expansion has been limited. Some of it is on account of investments that we continue to make. Would love to get your thoughts as to what's the margin sensitivity to the onsite offshore mix in our business?

Ritesh Idnani:

We do expect that there is opportunity for the onsite offshore mix to continue to improve, even though we are sitting right now at about a 80:20 mix in terms of our headcount itself. I am not getting into the specifics in terms of the sensitivity of a percentage point or what that moves. But what I can tell you is that it's a meaningful lever for us to unlock. Last year for us was an investment year and that was something that we are very clearly called out as well. Therefore, you do not end up seeing the benefits of some of the onsite to offshore mix reflected in the margins itself. But our view is that we have done a substantial part of those investments. Some of the incremental stuff that's there is around capability expansion, but again, those are spread out. So, we expect to meaningfully continue to expand margins, taking advantage of levers such as the onsite to offshore mix, taking advantage of what we are doing around, whether it's around intelligent attrition backfilling, rationalizing spans, looking at automation, improving margins and low margin accounts. I think all of those levers and facilities, rationalization, each of these is kicking in and giving us benefits itself. So, which is why we feel comfortable with the guidance and continue to improve 50 to 75 basis points YoY.

Moderator:

Thank you. The next question is from the line of Girish Pai from BOB Capital Markets. Please go ahead.

Girish Pai:

Yes, thanks for the follow-up opportunity. Just one question, Ritesh. You mentioned that headcount is no longer a lead indicator, and you also mentioned that the deals that you won, they staggered and the conversion is going to happen over an extended period of time. So, then, for the external world, what are the things to look at to kind of try to estimate how the growth would be? Or we will have to blindly depend on the guidance that the management is going to give.

Ritesh Idnani:

So, if you look at the parameters, which are really a function of the health of the business itself, the guidance is obviously a very key indicator because again, when we have provided a range out there, we have also been very clear to say that the lower end of the guidance is something that we have a very high order of certainty and visibility to. And the upper end of the guidance is linked to where we stand in pipeline, late stage of deals, likely order of conversion, those kinds of variables, etc. But at least that gives you a starting point in terms of where the business is likely to net off. And then, you start looking at some of the other variables that are there, which come into play. If you look at the deal wins itself, the number of new logos we are adding, the cross-sell upsell that's playing out, because you are starting to see a very clear movement in terms of the number of \$1 million relationships, number of \$5, \$10, \$20, \$50 million relationships. So, you know that when, as those things are playing out, that's creating opportunity for potential growth and also increases the degree of confidence in the guidance itself. So, my sense is, it's really a combination of all of those things, which eventually supplement what we are providing out there, in terms of numbers.

- Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain:** Sir, my question specifically is that on the collection business, what I understand is that there is a larger componenet, so is this also relevant in this acquired business? Or do you think there is a lot of fixed components and outcomes, and there is more of an uptick on it? And the reason I am asking this question is that if it's sort of outcome-driven, then the market volatility may exist depending on our collection efficiency?
- Ritesh Idnani:** I don't want to comment on the specifics of the PDC business, again, because we are in that pending regulatory approval period itself. So, talking about the profile of the business and what characteristics it has may not be appropriate entirely. But what I would suffice to say is that the way the previous owners have built the business as well, there is an opportunity there where they have looked at how they can get more and more of their business also in an outcome basis itself. And at the same time, they have got some of the digital capabilities. And I think those are areas where we can take the broader skill set that we have built as well to the UK market. And that was actually one of the primary motivations for us to go there as well. So, as you heard, I think somebody else asked the question, our collections margin profile of our existing business before PDC, our margin profile is higher. So, clearly, there could be some opportunities that could exist out there. But we have to get into the next phase. And some of that will come into play once we complete the regulatory approval process.
- Rahul Jain:** But more generally, if you could just give color on the outcome based as part of the total pricing, is there a way to look at the mix of pricing as a function of outcome based versus fixed base?
- Ritesh Idnani:** So let me start by saying more than 75% of the industry today bills on a time and material basis across IT services and BPO. That's the industry metric. For us, more than 50% of our business comes from nonlinear commercial constructs. That's the parallel to draw. And that's the matrix that we are tracking to see how we can continue to take advantage of the leadership that we have in understanding nonlinear commercial constructs on the back of deep domain to continue to bolster and strengthen our leadership itself. But I want to give you those two markers to understand where the industry is at and where we are at relative to the industry.
- Rahul Jain:** Yes, thanks for the input. Sorry to keep asking, but what my understanding historically from our research is that the collection business were higher among our portfolio because of its function of the collection efficacy. But yes, I will take more input once you incorporate this entity. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Ritesh Idnani for closing comments.

Ritesh Idnani:

So, firstly, thank you all for joining the call and for your insightful questions. I just want to close with a few final comments.

Our sales engine is working well. We had four large deal wins in Q1. That's the fifth straight quarter of three or more deals. We added 17 new logos, our highest quarterly addition over the last three years.

We are adding larger relationships and mining our existing relationships better. In the last four quarters, we have added 41 clients with over a million dollars in revenue, 13 with over \$5 million in revenue, 4 with over \$10 million of revenue, and 2 with over \$20 million in revenue. The share of revenues from our top 5 as well as our top 10 clients have come down by 5% and 8% respectively, reflecting the strength and the broad basing of the portfolio itself.

Our longer-term aspirations are intact. Despite the macro uncertainties, we have raised the lower end of our revenue growth guidance band. We believe that our FY26 revenue growth guidance of 13% to 15% should keep us in the top decile for the industry. We remain laser focused on improving our margins, continuing down the trajectory of having 4 consecutive quarters of margin expansion to improve our margins by more than 50 to 75 basis points each year and bring them in line with peers over the next three to four years. This is all from our side, and we look forward to interacting with you again in the next quarter call. Thank you.

Moderator:

Thank you. On behalf of Firstsource Solutions Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.