Birlasoft HOLD

Driving growth through innovation, efficiency and agility

TP	Rs414
CMP	Rs373
Potential upside/downside	11%
Previous Rating	HOLD

Key Stock Data	
Bloomberg/Reuters	BSOFT IN
Sector	IT Services
Shares o/s (mn)	279
Market cap. (Rs mn)	103,910
3-m daily average value (Rs mn)	25.7
52-week high / low	Rs624 / 330
Sensex / Nifty	83,311 / 25,510

Price Performance (%)

	-1m	-3m	-12m
Absolute	4.2	(3.4)	(35.9)
Rel to Sensex	2.4	(6.8)	(39.6)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	16	20
Consensus	17	21
% difference	*(5.7)*	*(6.5)*

Shareholding Pattern (%)

Promoters	40.5
FII	11.3
DII	21.8
Public	26.4

Summary

Birlasoft reported stable Q2FY26 performance amidst a challenging macro environment, with dollar revenue marginally up 0.1% QoQ to USD 150.7mn and rupee revenue rising 3.4% QoQ. Manufacturing softness was partially offset by sequential growth in BFSI and Lifesciences. EBITDA margin expanded sharply to 16% from 12.4% in Q1, aided by operational efficiencies and one-offs, but the underlying margin excluding these benefits would be around 13.5%. Q2 deal wins totaled USD 107mn, with some committed deals spilling into Q3, which is expected to deliver growth in the seasonally weak quarter. The company remains optimistic for better H2 performance, supported by a reinforced leadership team and an expanding AI-focused deal pipeline. Management is shifting toward annuity and outcome-based engagements for sustainable revenue streams, while manufacturing remains under recovery and ERP activity is closely tied to that vertical's revival. We reiterate our rating to HOLD and assign a new target price of Rs. 414, valuing the stock at 20.7x FY27E EPS.

Key Highlights and Investment Rationale

- **Focus areas for revenue growth:** Management's growth strategy centers on mid-market ERP refresh cycle led by JDE and Fusion, with SAP capabilities expanding. Agentic AI deployment is delivering measurable efficiencies; Cogito AI anchors many new deal discussions, supporting faster order book growth and recurring, outcome-linked revenues.

- **Margin levers for expansion:** It was driven by operational efficiencies, exiting low-profit accounts, exchange rate and one-off gains, ongoing cost controls, and sustained focus on collections; underlying margin sustainability will depend on continued efficiency measures and business mix optimization.

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	47,948	52,781	53,752	52,540	56,614
Change (yoy, %)	*16*	*10*	*2*	*(2)*	*8*
EBITDA	6,715	8,362	6,974	6,620	7,643
Change (yoy, %)	*5*	*25*	*(17)*	*(5)*	*15*
EBITDA Margin(%)	*14.0*	*15.8*	*13.0*	*12.6*	*13.5*
Adj.PAT	4,826	6,238	5,168	4,555	5,558
EPS (Rs)	17	23	19	16	20
Change (yoy, %)	*4.4*	*29.5*	*(17.3)*	*(12)*	*22*
PE(x)	21	17	20	23	19
Dividend Yield (%)	1.2	1.2	1.7	1	3
EV/EBITDA (x)	15	12	14	15	12
RoE (%)	19	23	16	12	14
RoCE (%)	23	27	19	15	16

Source: IDBI Capital Research

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Con call Highlights

- Revenue at USD 150.7mn, +0.1% QoQ, flat in CC, +3.4% QoQ in INR terms; sequential growth driven by BFSI and Life Sciences, offset by manufacturing softness. EBITDA margin improved sharply to 16.0%, up +369 bps QoQ, led by operational efficiencies, tail account rationalization, exchange gains, and one-off reversals. Management clarified that ~250 bps of margin expansion was one-off + forex; steady-state EBITDA margin stands ~13.5-14%.
- Signed TCV at USD 107mn, appears optically lower as two committed deals slipped from Q2 to Q3 due to paperwork timing; management confirmed deals are already won and will reflect in Q3 TCV.
- Order Book Visibility: Management expects sequential revenue growth in both Q3 and Q4, despite seasonality in Q3, supported by large deals won in Q4 last year now entering revenue phase. H2 FY26 expected to be stronger than H1 in both revenue & deal wins.
- Vertical Commentary: BFSI showed steady momentum with Q3 to be flattish due to expected furloughs, rebound is expended in Q4. Life Sciences & Energy/Utilities showed healthy demand, expected to support growth in H2. Weakness in Manufacturing continues with management working on account-level restructuring while recovery expected to take a couple of quarters.
- ERP/Manufacturing-linked business continues to be a drag; management sees future recovery tied to mid-market ERP refresh cycle, particularly JDE and Fusion; SAP capability expansion underway.
- Agentic AI Adoption Scaling: Delivered production-grade agentic AI solution for a large US P&C insurer showing tangible efficiency gains. Several new deal conversations being led with AI-first positioning using Birlasoft's Cogito AI platform.
- Cash & Collection Metrics Strong: Operating cash flow conversion at 74% of EBITDA; Cash & cash equivalents at Rs 23,434mn, +26% YoY; DSO improved to 55 days, among the best in industry.
- ETR elevated due to one-time US federal tax provisioning on legacy contracts; FY26 expected 42-43%, H2 FY26 ~44-45%; Normalized ETR to revert to ~28-30% from FY27.
- Leadership Update: Komal Jain appointed CEO-Americas, tasked with driving sales aggression, pipeline expansion, and enterprise account mining.

- Commercial Mix: 65-70% revenue annuity / managed services, 30-35% project-based; shift toward more outcome-based constructs remains a focus.
- Margin Outlook: Steady-state EBITDA margin expected at ~14%, with scope to improve gradually through utilization, mix improvement, and account mining

Exhibit 1: Financial snapshot (Rs mn)

Year-end: March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Revenues (US$ mn)	**150.7**	**150.7**	***0.0***	**163.3**	***(7.7)***
Revenues	**13,289**	**12,849**	***3.4***	**13,682**	***(2.9)***
COGS	7,964	7,787	*2.3*	8,296	*(4.0)*
Gross profit	5,325	5,062	*5.2*	5,386	*(1.1)*
SG&A	3,192	3,474	*(8.1)*	3,732	*(14.5)*
EBITDA	**2,133**	**1,588**	***34.3***	**1,653**	***29.0***
Depreciation & amortization	202	208	*(2.8)*	222	*(9.1)*
EBIT	1,931	1,380	*39.9*	1,431	*34.9*
Other income	169	281	*(39.9)*	266	*n.m.*
PBT	2,100	1,662	*26.4*	1,697	*23.8*
Tax	939	597	*57.2*	422	*122.6*
Minority interest					
Adjusted net profit	**1,161**	**1,064**	***9.1***	**1,275**	***(8.9)***
Exceptional item	0	0	*n.m.*	0	*n.m.*
Reported net profit	**1,161**	**1,064**	***9.1***	**1,275**	***(8.9)***
Diluted EPS (Rs)	**4.16**	**3.81**	***9.2***	**4.59**	***(9.5)***
As % of net revenue					
Gross profit	39.4	40.9		42.7	
SG&A	27.0	27.7		28.0	
EBITDA	12.4	13.2		14.7	
EBIT	10.7	11.5		13.1	
Reported net profit	8.3	9.3		11.3	
Tax rate	35.9	26.6		26.7	

Source: Company; IDBI Capital Research

Exhibit 2: Revised Estimates

Year to March	FY26E			FY27E		
	New	Old	*Ch (%)*	New	Old	*Ch (%)*
Revenue (US$ mn)	600	671	*-10.5%*	654	718	*-8.8%*
Revenue (Rs mn)	52,540	56,611	*-7.2%*	56,614	60,574	*-6.5%*
EBIT (Rs mn)	5,779	6,742	*-14.3%*	6,624	7,578	*-12.6%*
EBIT margin (%)	11.0%	11.9%	*-91 bps*	11.7%	12.5%	*-81 bps*
EPS (Rs)	16.4	20.3	*-19.2%*	20.0	22.8	*-12.2%*

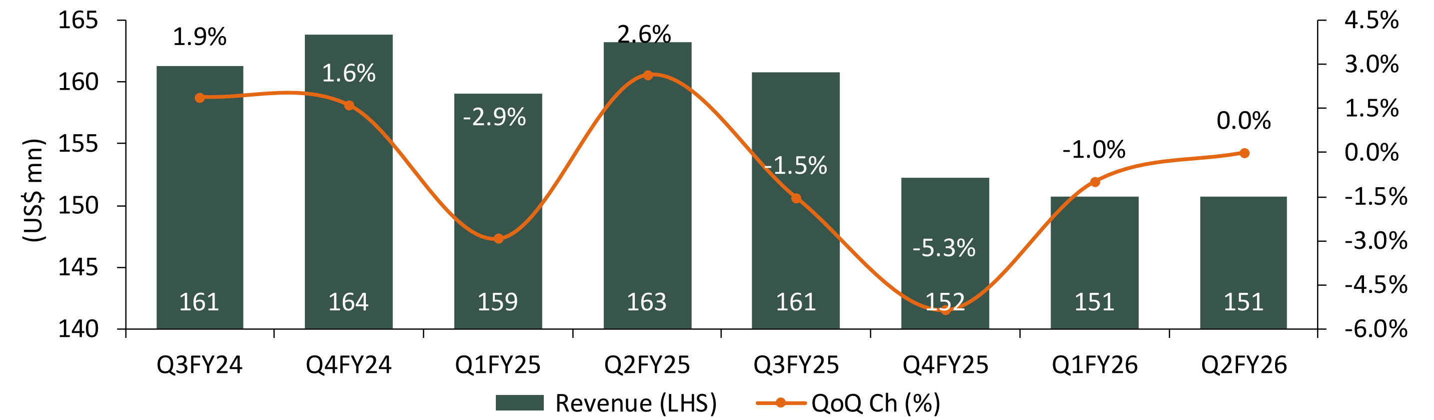
Source: Company; IDBI Capital Research

Exhibit 3: Large clients trend

Year-end: March	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
US$1 mn+	83	87	88	89	85	80	77	78
US$5 mn+	26	26	23	24	27	27	26	23
US$10 mn+	11	12	12	12	12	12	12	11

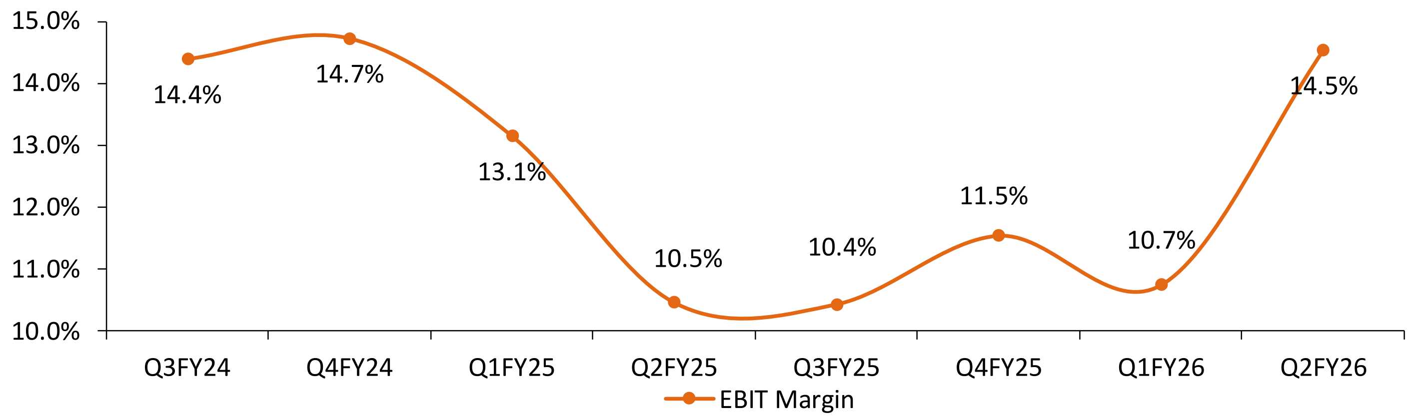
Source: Company; IDBI Capital Research

Exhibit 4: Q2FY26 revenue flat QoQ



Source: Company; IDBI Capital Research

Exhibit 5: Q2FY26 Margin grew by 408bps QoQ



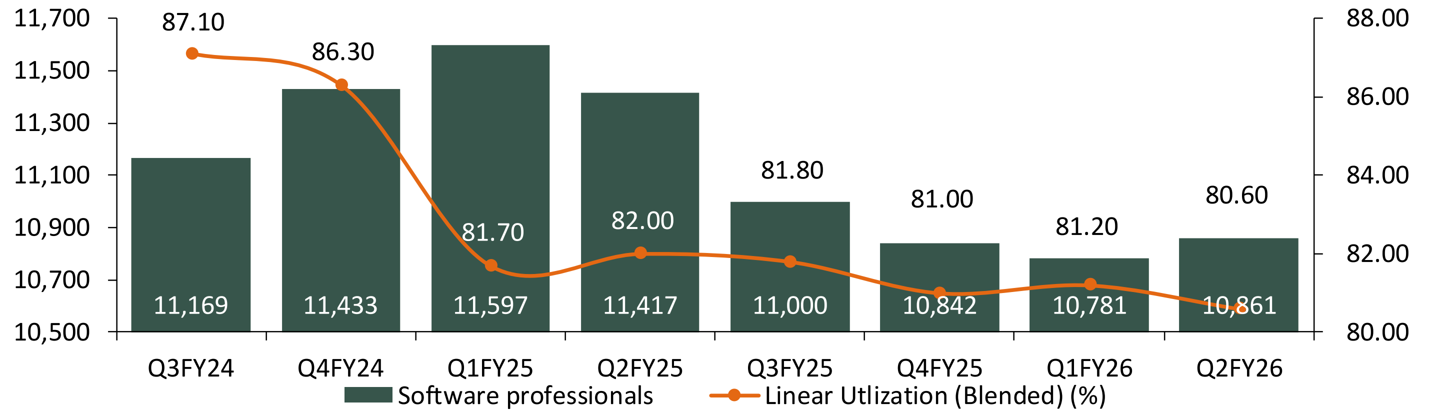
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth	YoY growth
Total revenue		-0.0%	-7.7%
Geography			
US	88.30	2.3%	-6.7%
ROW	11.70	-14.6%	-15.0%
Verticals			
Manufacturing	36.60	-4.2%	-15.6%
BFSI	24.80	1.6%	-1.8%
Energy & utility	17.30	-0.6%	-0.8%
Life-science	21.30	6.5%	-4.6%

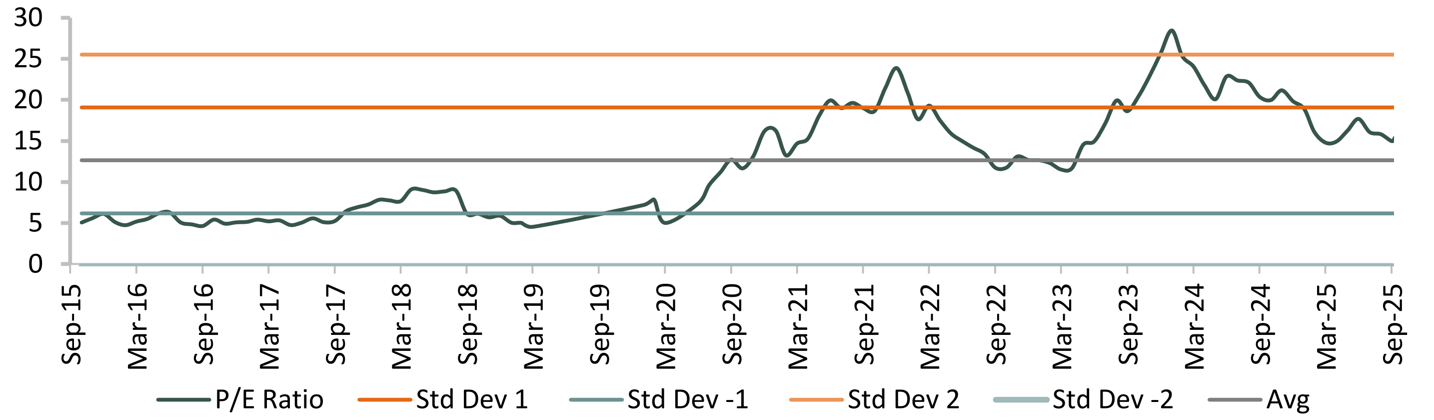
Source: Company; IDBI Capital Research

Exhibit 7: Utilization including trainees declined by 60 QoQ



Source: Company; IDBI Capital Research

Exhibit 8: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	**41,304**	**47,948**	**52,781**	**53,752**	**52,540**	**56,614**
Change (yoy, %)	*16.2*	*16*	*10*	*2*	*(2)*	*8*
Operating expenses	(34,902)	(41,233)	(44,419)	(46,778)	(45,920)	(48,971)
EBITDA	**6,402**	**6,715**	**8,362**	**6,974**	**6,620**	**7,643**
Change (yoy, %)	*21.0*	*5*	*25*	*(17)*	*(5)*	*15*
Margin (%)	*15.5*	*14.0*	*15.8*	*13.0*	*12.6*	*13.5*
Depreciation	(766)	(823)	(850)	(857)	(841)	(1,019)
EBIT	**5,636**	**5,892**	**7,512**	**6,117**	**5,779**	**6,624**
Interest paid	(130)	(186)	(199)	(234)	(340)	(380)
Other income	662	228	1,035	1,085	1,067	1,167
Pre-tax profit	**6,168**	**4,424**	**8,348**	**6,968**	**6,507**	**7,411**
Tax	(1,531)	(1,108)	(2,110)	(1,801)	(1,952)	(1,853)
Effective tax rate (%)	*24.8*	*25.1*	*25.3*	*25.8*	*30.0*	*25.0*
Minority Interest	-	-	-	-	-	-
Net profit	**4,637**	**3,316**	**6,238**	**5,168**	**4,555**	**5,558**
Exceptional items	-	(1,510)	-	-	-	-
Adjusted net profit	**4,637**	**4,826**	**6,238**	**5,168**	**4,555**	**5,558**
Change (yoy, %)	*44.6*	*4*	*29*	*(17)*	*(12)*	*22*
EPS	16.7	17.4	22.5	18.6	16.4	20.0
Dividend per share	4.0	4.5	4.5	6.5	5.0	10.1
Dividend Payout %	*24.0*	*25.9*	*19.9*	*35*	*31*	*50*

Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	**25,831**	**24,483**	**30,441**	**34,865**	**38,344**	**41,105**
Share capital	559	550	552	556	556	556
Reserves & surplus	25,272	23,933	29,889	34,310	37,788	40,550
Total Debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Curr Liab & prov	**8,003**	**7,390**	**8,815**	**9,759**	**9,385**	**9,994**
Current liabilities	5,886	5,245	6,540	6,792	6,510	7,015
Provisions	2,117	2,145	2,275	2,967	2,875	2,979
Total liabilities	**8,003**	**7,390**	**8,815**	**9,759**	**9,385**	**9,994**
Total equity & liabilities	**33,833**	**31,873**	**39,256**	**44,624**	**47,729**	**51,099**
Net fixed assets	7,274	7,424	7,087	7,664	7,369	7,049
Investments	162	270	163	293	162	175
Other non-curr assets	1,523	1,737	1,472	1,533	1,375	1,330
Current assets	**24,874**	**22,441**	**30,534**	**35,133**	**38,823**	**42,546**
Inventories	-	-	-	-	-	-
Sundry Debtors	8,488	9,071	10,365	10,513	10,337	11,138
Cash and Bank	3,828	5,566	4,249	4,449	5,678	7,969
Loans and advances	8,402	5,652	13,196	17,646	17,521	17,742
Total assets	**33,833**	**31,873**	**39,256**	**44,624**	**47,729**	**51,099**

Cash Flow Statement (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	6,168	4,424	8,348	6,968	6,507	7,411
Depreciation	765	823	850	857	588	713
Tax paid	(1,784)	(1,315)	(1,807)	(1,878)	(1,871)	(1,785)
Chg in working capital	(2,343)	1,677	(209)	(72)	(118)	(232)
Other operating activities					-	-
Cash flow from operations (a)	**2,807**	**5,609**	**7,182**	**5,875**	**5,106**	**6,107**
Capital expenditure	(617)	(565)	(258)	(1,177)	(1,211)	(1,258)
Chg in investments	(2,449)	3,082	(6,011)	(3,193)	(748)	(839)
Other investing activities			-	-	-	-
Cash flow from investing (b)	**(3,067)**	**2,517**	**(6,269)**	**(4,370)**	**(1,959)**	**(2,097)**
Equity raised/(repaid)	79	(3,900)	99	106	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(1,111)	(1,250)	(1,240)	(1,796)	(2,517)	(2,797)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(464)	(1,214)	(515)	(470)	(124)	(178)
Cash flow from financing (c)	**(1,495)**	**(6,363)**	**(1,656)**	**(2,160)**	**(2,641)**	**(2,975)**
Net chg in cash (a+b+c)	**(1,755)**	**1,763**	**(743)**	**(655)**	**506**	**1,036**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	93	88	110	126	138	148
Adj EPS (Rs)	*16.7*	*17.4*	*22.5*	*18.6*	*16.4*	*20.0*
Adj EPS growth (%)	*44.6*	*4*	*29*	*-17*	*-12*	*22*
EBITDA margin (%)	*15.5*	*14.0*	*15.8*	*13.0*	*12.6*	*13.5*
Pre-tax margin (%)	*14.9*	*9.2*	*15.8*	*13.0*	*12.4*	*13.1*
Net Debt/Equity (x)	*-0.1*	*-0.2*	*-0.1*	*-0.1*	*-0.1*	*-0.2*
ROCE (%)	*23.7*	*23*	*27*	*19*	*15*	*16*
ROE (%)	*19.5*	*19*	*23*	*16*	*12*	*14*
DuPont Analysis						
Asset turnover (x)	1.3	1.5	1.5	1.3	1.1	1.1
Leverage factor (x)	1.3	1.3	1.3	1.3	1.2	1.2
Net margin (%)	*11.2*	*10.1*	*11.8*	*9.6*	*8.7*	*9.8*
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	75	69	72	71	72	72
Payable days	22	20	23	18	22	22

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	22.4	21.4	16.5	20.0	22.7	18.6
Price/Book value (x)	4.0	4.2	3.4	3.0	2.7	2.5
EV/Net sales (x)	2.4	2.0	1.9	1.8	1.9	1.7
EV/EBITDA (x)	15.6	14.6	11.8	14.2	14.8	12.5
Dividend Yield (%)	*1.1*	*1.2*	*1.2*	*1.7*	*1.4*	*2.7*

Source: Company; IDBI Capital Research

SAPTARSHI MUKHERJEE

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BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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