

Birlasoft

HOLD

Long-term growth intact

Summary

Despite a seasonally weak quarter, Birlasoft reported strong revenue growth (1.8% QoQ in CC terms) mainly led by ramp up of large deal in E&U segment, short term digital projects and change request offset by furloughs. Going forward, we expect the company to register strong revenue CAGR of 12% over FY23-FY26E mainly led by focus on client mining, traction in ERP business and uptick in BFSI. In addition, we expect margins to improve by 292 bps over FY23-FY26E leading to EPS upgrade of 3% in FY25E. Hence, we have revised our target price upwards from Rs 635 to Rs 785 (26x FY26E EPS, introduced FY26E estimates). However, considering recent run up in stock we downgrade the stock from Buy to HOLD.

Key Highlights and Investment Rationale

- Focus on client mining to drive growth:** The new CEO has increased focus on select verticals and Geo for which the company has hired vertical & Geo focused leaders. Apart from this the company is seeing strong traction in ERP. Further from longer term perspective the company aims to make digital, data, AI & Infra to be bigger than ERP. The company also believes that BFSI & life sciences will be key long term drivers considering the tech spend potential. Its key focus will be on BFSI, manufacturing & life science. Annuity projects, large deal wins, ramp up of short term digital projects and client mining to further boost growth. Hence, we have a constructive view on the company from long term perspective.
- Margins to remain strong:** We believe 16% EBITDA margins are now sustainable considering 9MFY24 performance. Considering this we now expect EBITDA margins to improve by 90 bps to 16.8% in FY25E & FY26E each mainly led by lower attrition, higher utilization & pyramid and strong revenue growth.

TP	Rs785
CMP	Rs822
Potential upside/downside	-4.6%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	11.1	56.3	168.9
Rel to Sensex	(0.1)	10	16.5

V/s Consensus			
EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	22.0	26.7	30.5
Consensus	20.9	25.0	29.4
% difference	5.3	6.8	3.7

Key Stock Data	
Bloomberg/Reuters	BSOFT IN
Sector	IT Services
Shares o/s (mn)	276
Market cap. (Rs mn)	2,26,900
3-m daily average value (Rs mn)	80
52-week high / low	Rs827 / 250
Sensex / Nifty	711,060 / 21,453

Shareholding Pattern (%)	
Promoters	40.95
FII	21.25
DII	18.52
Public	19.28

Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	41,304	47,948	52,812	60,342	69,393
Change (yoy, %)	16	16	10	14	15
EBITDA	6,402	6,715	8,399	10,137	11,658
Change (yoy, %)	21	5	25	21	15
EBITDA Margin(%)	15.5	14.0	15.9	16.8	16.8
Adj.PAT	4,637	4,826	6,066	7,372	8,405
EPS (Rs)	17	18	22	27	30
Change (yoy, %)	44.6	5.0	25.7	22	14
PE(x)	49	47	37	31	27
Dividend Yield (%)	0.5	0.6	0.7	1	1
EV/EBITDA (x)	35	33	26	21	18
RoE (%)	19	19	23	23	21
RoCE (%)	24	23	28	29	26

Source: IDBI Capital Research

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Con call Highlights

- Company recorded revenue of US\$161.3 mn, up 1.9%/8.7% QoQ/YoY. Total revenue grew 2.5%/10% QoQ/YoY in Rupee terms. The revenue growth was led by ramp up of large deal in E&U segment, short term digital projects and change request. This was offset by furloughs.
- E&U improved 7.8% QoQ mainly led by ramp up of large deals. BFSI declined by 0.5% mainly due to impact of furloughs. Infra, digital & Cloud was led by ramp up of cloud & one-time projects. BFSI is expected to improve in Q4.
- EBITDA margin expanded by 20bps QoQ to 16.0%. The margin improvement was despite wage hike of 2 months. This was mainly due to 60 bps improvement in utilization, lower sub con cost (replacement by internal employees), higher short term projects and shorter quarter.
- Company signed deals worth TCV of US\$ 218 mn (down 20%/6% QoQ/YoY). The company's 9 month deal wins is up 9% mainly due to higher growth in renewals and new deal wins from existing clients. The company is not losing deal and is seeing healthy pipeline. This could help in improving FY25E growth.
- In terms of strategy the company continues to focus on mining of top clients and reducing tail clients. This has led to 18% & 17% growth in top 5 and Top 6-10 clients. The company is almost there in terms of rationalizing clients and aims to have 200-250 clients.
- Almost all hiring has been done by the company. The company plans to invest more in tech and domain capability.
- In terms of demand environment the company does not see material change in macro, clients are cautiously optimistic, deal size are getting smaller and more of cost optimization deals are visible. Due to short term project ramp up in Q3 the company is uncertain on Q4 growth. The company is seeing traction ERP especially in SAP. The company has hired leaders and built partnerships which will drive growth. The company expects ERP to grow over the medium term. Ramp up in short term projects (typically 6-9 months) could drive FY25E growth.
- The company aims to keep margins in narrow band as it continues to invest in capability and domain capacity. We believe this range could be 15.5% to 17% as indicated earlier.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Revenues (US\$ mn)	161.3	158.3	1.9	148.4	8.7
Revenues	13,430	13,099	2.5	12,219	9.9
COGS	7,934	7,441	6.6	7,320	8.4
Gross profit	5,495	5,657	(2.9)	4,899	12.2
SG&A	3,352	3,586	(6.5)	3,316	1.1
EBITDA	2,143	2,071	3.4	1,584	35.3
Depreciation & amortization	211	215	(2.1)	210	0.3
EBIT	1,932	1,856	4.1	1,374	40.7
Other income	222	99	1.2	68	n.m.
PBT	2,154	1,955	10.2	1,442	49.4
Tax	544	504	7.8	95	470.7
Minority interest					
Adjusted net profit	1,611	1,451	11.0	1,347	19.6
Exceptional item	0	0	n.m.	1,510	n.m.
Reported net profit	1,611	1,451	11.0	-164	n.m.
Diluted EPS (Rs)	5.7	5.2	10.6	(0.6)	n.m.
As % of net revenue					
Gross profit	40.9	43.2		40.1	
SG&A	25.0	27.4		27.1	
EBITDA	16.0	15.8		13.0	
EBIT	14.4	14.2		11.2	
Reported net profit	12.0	11.1		(1.3)	
Tax rate	25.2	25.8		6.6	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY24F			FY25F			FY26F
	New	Old	Chg (%)	New	Old	Chg (%)	(Introduced)
Revenue (US\$ mn)	638	637	0.1%	727	726	0.1%	836
Revenue (Rs mn)	52,812	52,731	0.2%	60,342	60,298	0.1%	69,393
EBIT (Rs mn)	7,544	7,412	1.8%	9,178	8,990	2.1%	10,555
EBIT margin (%)	14.3%	14.1%	23bps	15.2%	14.9%	30	15.2%
EPS (Rs)	21.7	20.9	3.7%	26.7	25.5	4.7%	30.0

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q3FY24	Q3FY24E	Variance (%)
Revenue (US\$ mn)	161.3	159.9	0.9%
Revenue (Rs mn)	13,430	13,318	0.8%
EBIT (R smn)	1,932	1,796	7.6%
EBIT margin (%)	14.4%	13.5%	90 bps
Recurring PAT (Rs mn)	1,611	1,417	13.6%
Recurring PAT margin (%)	12.0%	10.6%	135 bps
EPS (Rs)	5.7	5.1	13.2%

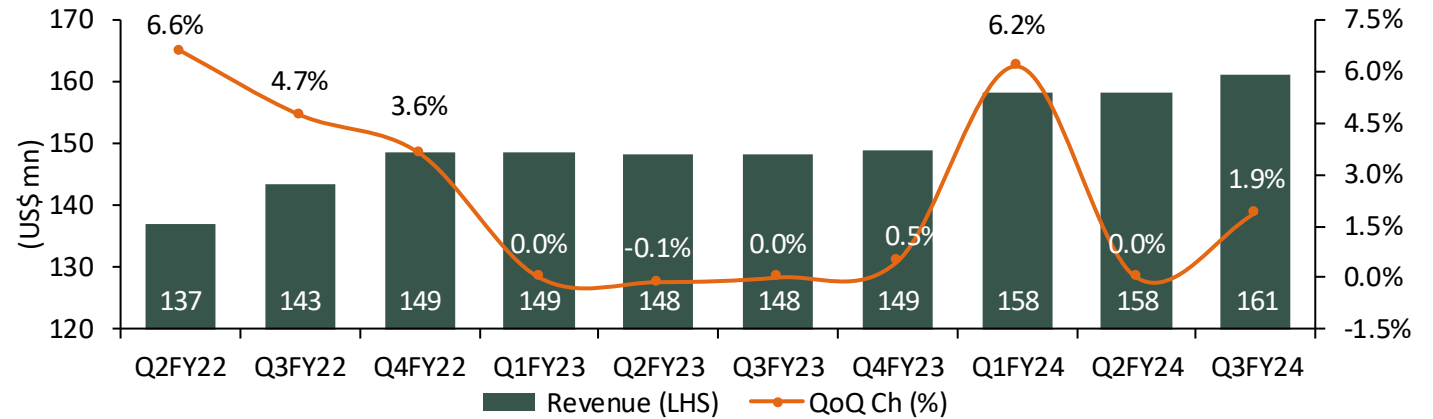
Source: Company; IDBI Capital Research

Exhibit 4: Large clients trend

Year-end: March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
US\$1 mn+	80	82	76	83	83	85	85	83
US\$5 mn+	25	25	27	24	26	27	27	26
US\$10 mn+	13	13	14	13	13	11	11	11

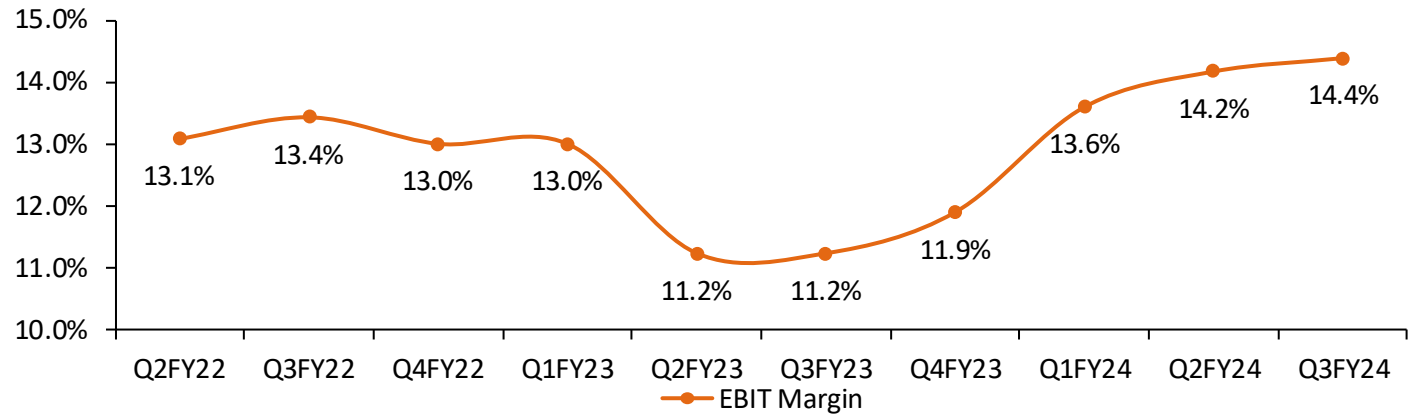
Source: Company; IDBI Capital Research

Exhibit 5: Q3FY24 revenue growth was above our estimates



Source: Company; IDBI Capital Research

Exhibit 6: Q3FY24 EBIT margin at 14.4% was higher than our estimate



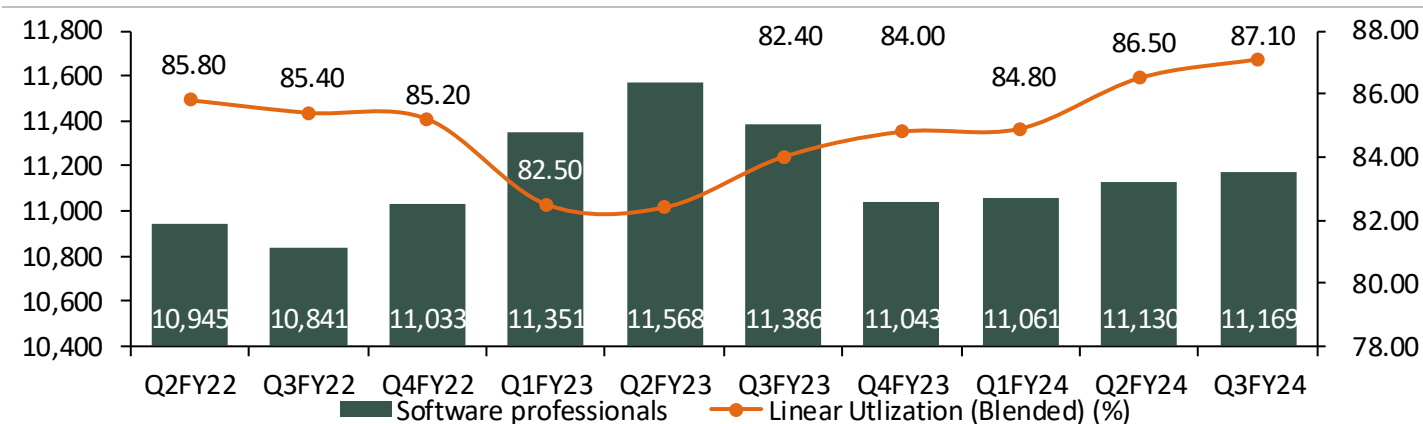
Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth (in CC)	YoY growth (in CC)
Total revenue		1.8%	7.9%
Geography			
US	85.70	1.8%	11.3%
ROW	14.30	0.7%	-12%
Verticals			
Manufacturing	41.10	1.9%	-3.1%
BFSI	20.60	-0.5%	11.4%
Energy & utility	14.50	7.8%	13.4%
Lifescience	23.90	1.5%	30.5%

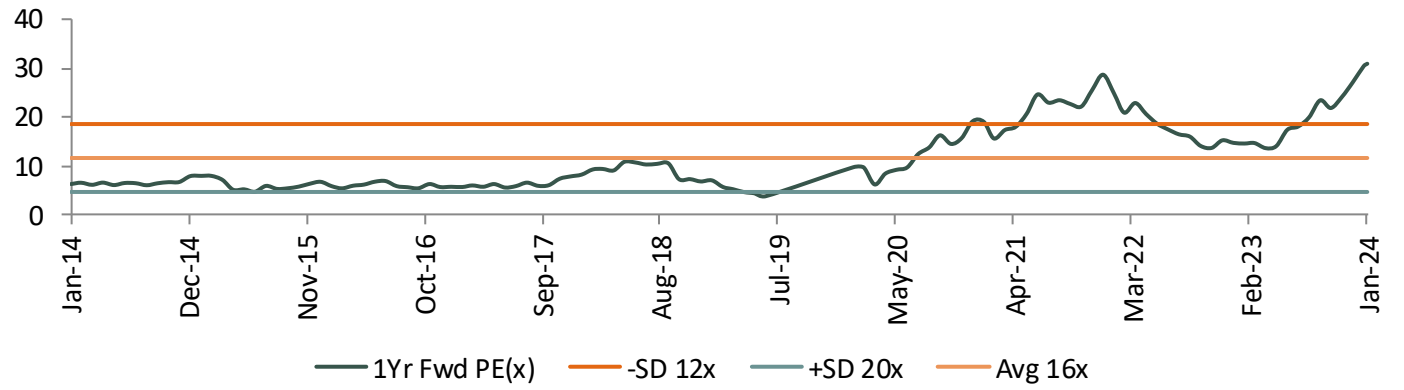
Source: Company; IDBI Capital Research

Exhibit 8: Utilisation including trainees improved by 60 bps QoQ



Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	35,557	41,304	47,948	52,812	60,342	69,393
<i>Change (yoy, %)</i>	8.0	16	16	10	14	15
Operating expenses	(30,265)	(34,902)	(41,233)	(44,413)	(50,204)	(57,735)
EBITDA	5,292	6,402	6,715	8,399	10,137	11,658
<i>Change (yoy, %)</i>	35	21	5	25	21	15
<i>Margin (%)</i>	14.9	15.5	14.0	15.9	16.8	16.8
Depreciation	(804)	(766)	(823)	(860)	(959)	(1,103)
EBIT	4,488	5,636	5,892	7,539	9,178	10,555
Interest paid	(130)	(130)	(186)	(214)	(214)	(214)
Other income	190	662	228	781	865	865
Pre-tax profit	4,548	6,168	4,424	8,106	9,829	11,206
Tax	(1,340)	(1,531)	(1,108)	(2,040)	(2,457)	(2,802)
<i>Effective tax rate (%)</i>	29.5	24.8	25.1	25.2	25.0	25.0
Minority Interest	-	-	-	-	-	-
Net profit	3,208	4,637	3,316	6,066	7,372	8,405
Exceptional items	-	-	(1,510)	-	-	-
Adjusted net profit	3,208	4,637	4,826	6,066	7,372	8,405
<i>Change (yoy, %)</i>	43	45	4	26	22	14
EPS	11.5	16.7	17.5	22.0	26.7	30.5
Dividend per share	2.0	4.0	4.5	5.6	6.6	7.6
<i>Dividend Payout %</i>	17	24	26	25	25	25

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	21,799	25,831	24,483	29,015	34,566	40,870
Share capital	555	559	550	550	550	550
Reserves & surplus	21,245	25,272	23,933	28,465	34,016	40,320
Total Debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Curr Liab & prov	8,145	8,003	7,390	8,718	9,816	11,136
Current liabilities	5,821	5,886	5,245	6,635	7,581	8,718
Provisions	2,324	2,117	2,145	2,083	2,235	2,418
Total liabilities	8,145	8,003	7,390	8,718	9,816	11,136
Total equity & liabilities	29,944	33,833	31,873	37,733	44,382	52,006
Net fixed assets	7,047	7,274	7,424	7,200	6,967	6,699
Investments	353	162	273	300	343	395
Other non-curr assets	1,492	1,524	1,737	3,142	3,781	4,311
Current assets	21,053	24,874	22,439	27,090	33,291	40,600
Inventories	-	-	-	-	-	-
Sundry Debtors	6,318	8,488	9,071	10,101	11,541	13,272
Cash and Bank	5,274	3,828	5,535	5,968	9,854	14,382
Loans and advances	5,710	8,402	5,631	5,707	5,823	5,963
Total assets	29,944	33,833	31,873	37,733	44,382	52,006

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	4,548	6,168	4,424	8,106	9,829	11,206
Depreciation	804	184	576	602	672	772
Tax paid	(1,051)	(1,781)	(1,375)	(2,990)	(2,847)	(3,103)
Chg in working capital	(3,164)	(4,793)	1,590	190	(510)	(613)
Other operating activities	3,169	-	2,027	(3,409)	(955)	(1,078)
Cash flow from operations (a)	4,306	(221)	7,242	2,499	6,189	7,184
Capital expenditure	(318)	(411)	(726)	(378)	(439)	(505)
Chg in investments	(318)	191	(110)	(28)	(43)	(51)
Other investing activities	(3,729)	222	151	-	-	-
Cash flow from investing (b)	(4,365)	1	(685)	(406)	(482)	(556)
Equity raised/(repaid)	1	4	(3,414)	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(554)	(1,111)	(1,250)	(1,540)	(1,820)	(2,101)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(416)	(120)	(186)	(120)	-	-
Cash flow from financing (c)	(969)	(1,226)	(4,849)	(1,660)	(1,820)	(2,101)
Net chg in cash (a+b+c)	(1,028)	(1,446)	1,707	433	3,886	4,527

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	78.4	93	89	105	125	148
Adj EPS (Rs)	11.5	16.7	17.5	22.0	26.7	30.5
Adj EPS growth (%)	42.3	45	5	26	22	14
EBITDA margin (%)	14.9	15.5	14.0	15.9	16.8	16.8
Pre-tax margin (%)	12.8	14.9	9.2	15.3	16.3	16.1
Net Debt/Equity (x)	-0.2	-0.1	-0.2	-0.2	-0.3	-0.4
ROCE (%)	22	24	23	28	29	26
ROE (%)	15	19	19	23	23	21
DuPont Analysis						
Asset turnover (x)	1.3	1.3	1.5	1.5	1.5	1.3
Leverage factor (x)	1.4	1.3	1.3	1.3	1.3	1.3
Net margin (%)	9.0	11.2	10.1	11.5	12.2	12.1
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	65	75	69	70	70	70
Payable days	16	22	20	21	21	21

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	71	49	47	37	31	27
Price/Book value (x)	10.5	8.9	9.3	7.8	6.6	5.5
EV/Net sales (x)	6	5	5	4	4	3
EV/EBITDA (x)	42	35	33	26	21	18
Dividend Yield (%)	0.2	0.5	0.6	0.7	0.8	0.9

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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