

Birlasoft

HOLD

Quality revenue & operational focus powering the margin

Summary

Birlasoft delivered a steady Q3 performance despite a seasonally weak quarter, with flat revenue growth in dollar term but a strong improvement in margins driven by cost control, higher offshore mix, and better-quality deals. EBITDA margin expanded sharply to 18.2% backed by one-offs, forex benefits, rise in fixed-price business & offshore works, though management clarified that the sustainable margin is closer to 15%. Deal wins improved meaningfully, with total contract value rising sharply and a healthy share of net-new, AI-led engagements, showing progress in moving towards outcome-based and fixed-price work. However, revenue growth remains the key concern. Demand conditions are still cautious, discretionary spending is tight, and manufacturing & life sciences are expected to face headwinds for at least another quarter. While BFSI and energy utilities are relatively stable and the pipeline looks better for Q4, revenue visibility is still limited. Overall, Birlasoft shows improving execution and profitability, but muted near-term growth keeps the risk-reward balanced. We reiterate our rating to HOLD and assign a new target price of Rs. 450, valuing the stock at 21x FY27E EPS.

Key Highlights and Investment Rationale

- **Focus areas for revenue growth:** Focus on BFSI, energy utilities, AI-led deals, fixed-price contracts, stronger deal pipeline, and faster ramp-up of new wins.
- **Margin levers for expansion:** Margin expansion comes from higher offshore work, cost control, Fixed-price projects, better pricing discipline, lower subcontracting and improved utilization.

TP	Rs450
CMP	Rs402
Potential upside/downside	12%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(10.2)	4.1	(22.1)
Rel to Sensex	(7.0)	7.0	(31.3)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	16.2	21.4
Consensus	15.9	21.6
% difference	1.6	(1.1)

Key Stock Data

Bloomberg/Reuters	BSOFT IN
Sector	IT Services
Shares o/s (mn)	279
Market cap. (Rs mn)	1,12,284
3-m daily average value (Rs mn)	25.7
52-week high / low	Rs542 / 330
Sensex / Nifty	82,345 / 25,343

Shareholding Pattern (%)

Promoters	40.5
FII	10.9
DII	23.1
Public	25.5

Financial snapshot

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	47,948	52,781	53,752	53,214	57,005
Change (yoy, %)	16.1	10.1	1.8	(1.0)	7.1
EBITDA	6,715	8,362	6,974	7,397	8,038
Change (yoy, %)	4.9	24.5	(16.6)	6.1	8.7
EBITDA Margin(%)	14.0	15.8	13.0	13.9	14.1
Adj.PAT	4,826	6,238	5,168	4,524	5,996
EPS (Rs)	17.4	22.5	18.6	16.2	21.4
Change (yoy, %)	4.4	29.5	(17.3)	(13.2)	32.5
PE(x)	23.1	17.9	21.6	24.9	18.8
Dividend Yield (%)	1.1	1.1	1.6	2.5	2.5
EV/EBITDA (x)	15.8	12.8	15.4	14.7	13.2
RoE (%)	19.2	22.7	15.8	12.3	15.0
RoCE (%)	23.4	27.4	18.7	17.8	17.8

Source: IDBI Capital Research

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Con-call Highlights

- Revenue grew 0.3% QoQ in cc and 0.1% QoQ in USD, reflecting a stable performance in a seasonally weak, furlough-heavy quarter. In INR terms, revenue increased 1.4% QoQ, aided by currency movement.
- Growth was led by Manufacturing and ERP ramp-ups from earlier deal wins, which offset furlough impact and softness in BFSI and Life Sciences. Management clarified that manufacturing growth was one-off in nature, and revenue growth remains constrained by macro uncertainty and discretionary spend cuts.
- EBITDA margin expanded sharply by ~210 bps QoQ to 18.2%, marking the second consecutive quarter of strong margin expansion. Margin improvement was driven by better revenue quality, higher offshore mix, rise in fixed-price and outcome-based contracts, cost rationalization, forex tailwinds (~70–80 bps), and one-offs (~110 bps).
- EBITDA included a one-time labor code provision of ~INR 40.7 crore, which management confirmed as non-recurring. Excluding one-offs, management indicated a sustainable steady-state EBITDA margin of ~15%, factoring future investments in sales, leadership, and capabilities.
- Manufacturing showed QoQ growth, driven by delayed ramp-ups of previously won deals, but management expects continued headwinds in Q4, with recovery likely only from Q1–Q2 FY27.
- BFSI appeared weaker QoQ, largely due to furloughs, but management expects it to remain steady in Q4 and grow in FY27, supported by AI-led deal wins.
- Energy & Utilities (E&U) remains one of the most stable verticals, with continued growth momentum expected.
- Life Sciences (primarily medical devices) faced tariff-related pressures and is expected to remain soft for another quarter before stabilizing in FY27.
- Data & Digital saw temporary softness due to furloughs but is structurally strong, with growth expected to resume in Q4.
- Infrastructure services grew strongly, driven by a large ROW infrastructure deal now under execution.
- ROW (Rest of World) delivered strong QoQ growth, driven by ERP milestone-based revenues and infrastructure deal execution.

- North America remains ~85% of revenue, but growth has lagged; management has strengthened leadership with a new Americas head to drive recovery.
- Investments in ROW geographies are yielding both revenue growth and margin expansion, and management expects this trend to continue into FY27.
- TCV for Q3 stood at USD 202mn, up 89% QoQ, marking a strong rebound from Q2 deal slippage.
- ~46% of deal wins were net-new, highlighting improved competitive positioning.
- Management expects Q4 deal signings to exceed Q3, supported by a healthy and expanding pipeline.
- USD 1mn+ clients increased from 78 to 85 QoQ, indicating deeper wallet share with priority clients.
- Management emphasized focus on fewer, larger, and more strategic clients to improve growth quality and margins.
- The company continues to reduce subcontractor dependence, with subcontractors now at ~8% of workforce, in line with industry norms.
- Headcount optimization reflects a shift from onsite to offshore delivery and outcome-based models, rather than demand weakness.
- Wage hikes are planned in FY27 (Q1–Q2), while promotions were completed in Q3.
- Birlasoft is actively scrapping or exiting low-margin, non-scalable, and pass-through businesses, including certain ERP and staff-augmentation-heavy engagements.
- The shift toward fixed-price, outcome-based contracts is central to margin sustainability and working-day insensitivity.
- Client and portfolio cleaning is largely complete, with management indicating limited further downside from rationalization.
- Demand environment remains unchanged and cautious, with clients prioritizing cost optimization and productivity over discretionary spend.
- AI is a key deal enabler, embedded in most recent wins, particularly in BFSI, manufacturing, and infrastructure.

- Management believes AI will support margin resilience and long-term growth, even if near-term revenue growth remains muted.
- The sector outlook remains cautiously optimistic, with recovery dependent on deal conversion and reduced macro uncertainty rather than demand collapse.
- Management expects Q4 signings to be stronger than Q3, though revenue growth may remain uneven due to fewer working days and vertical-specific headwinds.
- Focus areas for FY27 include pipeline build-up, revenue acceleration, sustained ~15% margins, AI-led differentiation, and deeper strategic client relationships

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY26	Q2FY26	QoQ (%)	Q3FY25	YoY (%)
Revenues (US\$ mn)	150.8	150.7	0.1	160.8	(6.2)
Revenues	13,475	13,289	1.4	13,627	(1.1)
COGS	8,095	7,964	1.6	8,329	(2.8)
Gross profit	5,381	5,325	1.0	5,298	1.6
SG&A	2,932	3,192	(8.2)	3,664	(20.0)
EBITDA	2,448	2,133	14.8	1,634	49.8
Depreciation & amortization	201	202	(0.5)	213	(5.5)
EBIT	2,247	1,931	16.4	1,422	58.1
Other income	77	169	(54.4)	138	n.m.
PBT	2,324	2,100	10.7	1,560	49.0
Tax	719	939	(23.4)	390	84.2
Minority interest					
Adjusted net profit	1,605	1,161	38.2	1,169	37.2
Exceptional item	-407	0	n.m.	0	n.m.
Reported net profit	1,198	1,161	3.2	1,169	2.4
Diluted EPS (Rs)	4.28	4.16	3.1	4.20	2.0
As % of net revenue					
Gross profit	39.9	40.1	-14 bps	38.9	105 bps
SG&A	21.8	24.0		26.9	
EBITDA	18.2	16.1	212 bps	12.0	617 bps
EBIT	16.7	14.5	214 bps	10.4	624 bps
Reported net profit	8.9	8.7	15 bps	8.6	31 bps
Tax rate	30.9	44.7		25.0	

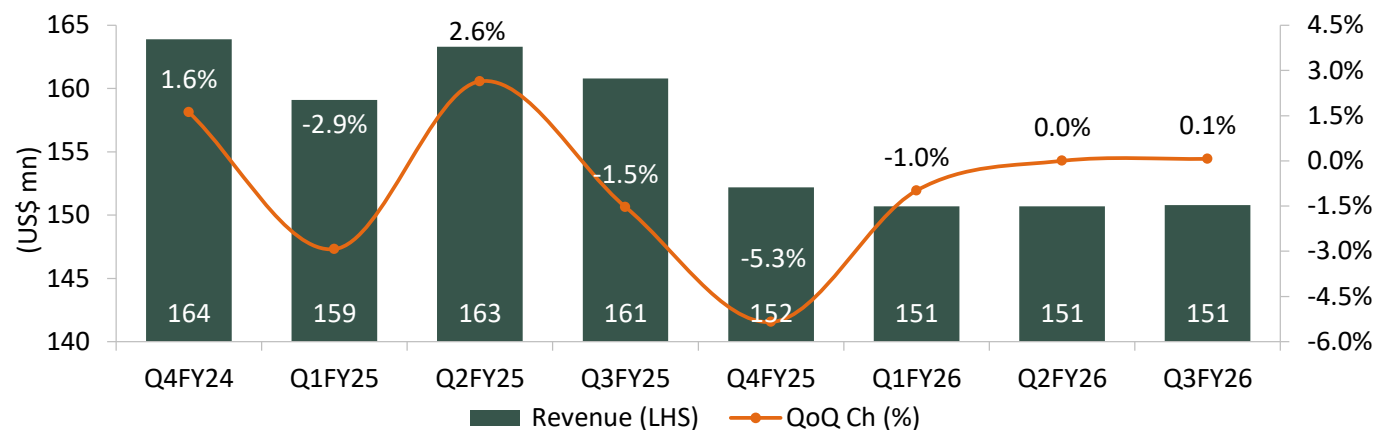
Source: Company; IDBI Capital Research

Exhibit 2: Large clients trend

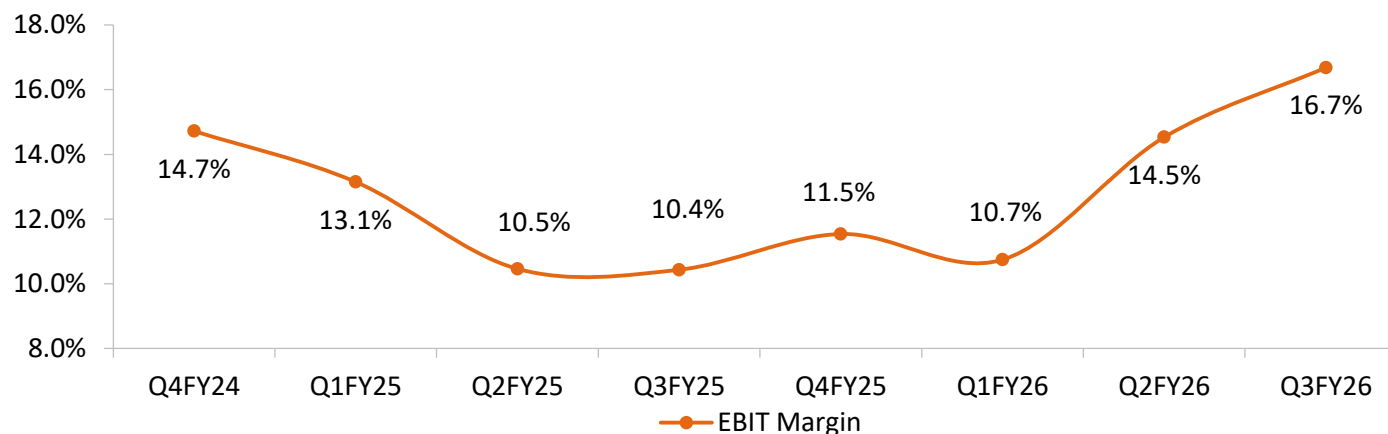
Year-end: March	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
US\$1 mn+	87	88	89	85	80	77	78	85
US\$5 mn+	26	23	24	27	27	26	23	23
US\$10 mn+	12	12	12	12	12	12	11	10

Source: Company; IDBI Capital Research

Exhibit 3: Q3FY26 revenue remained flat on QoQ



Source: Company; IDBI Capital Research

Exhibit 4: Q3FY26 Margin expanded by ~214bps QoQ

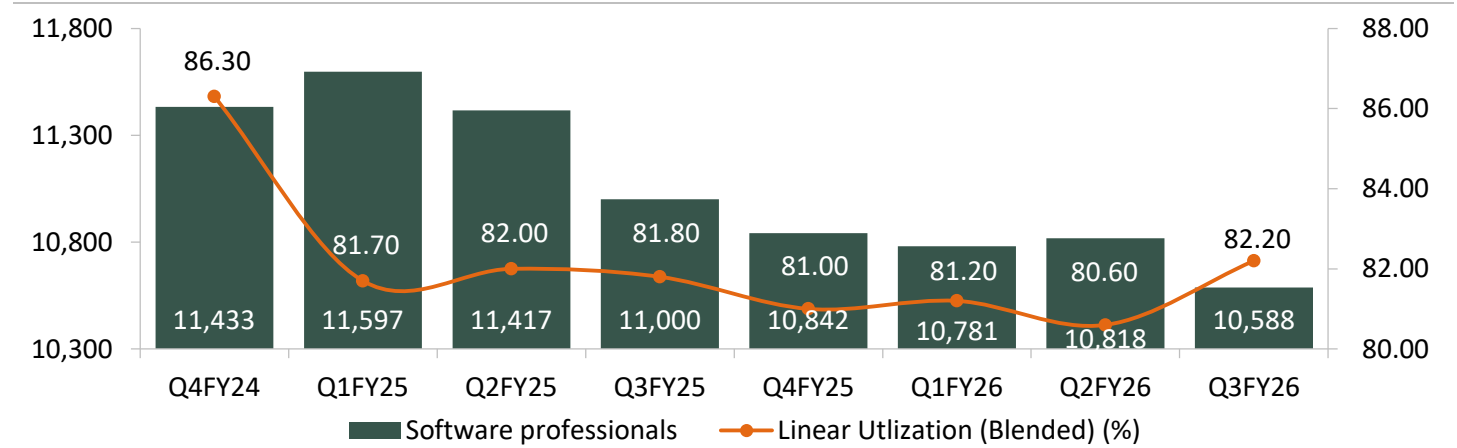
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth across various segments (USD %)

Parameters	% of revenue	QoQ growth	YoY growth
Total revenue		0.1%	-6.2%
Geography			
US	84.70	-4.0%	-9.5%
ROW	15.30	30.9%	17.6%
Verticals			
Manufacturing	37.70	3.1%	-11.8%
BFSI	24.30	-2.0%	-5.4%
Energy & utility	16.80	-2.8%	0.4%
Life-science	21.20	-0.4%	-0.6%

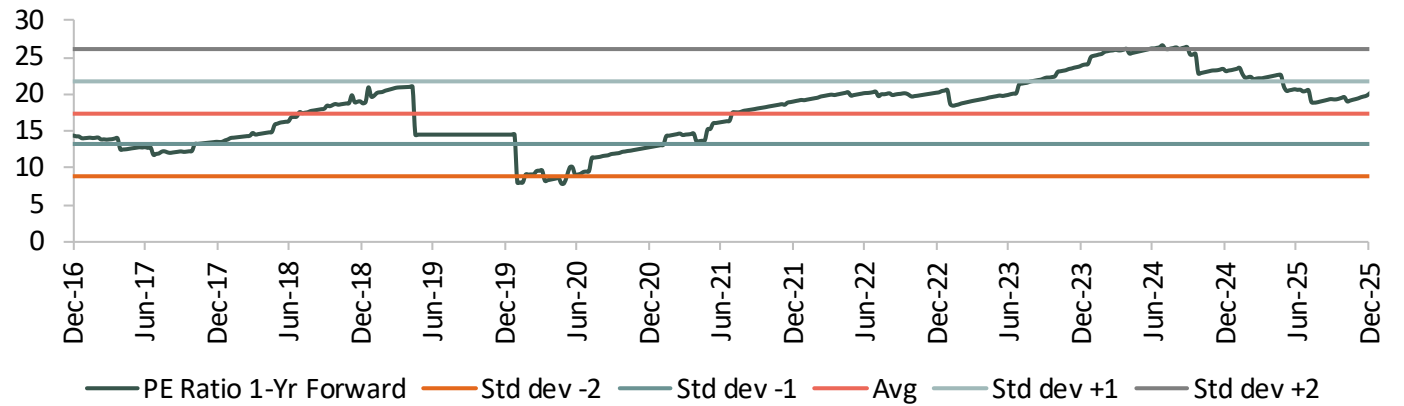
Source: Company; IDBI Capital Research

Exhibit 6: Utilization including trainees increased by 160bps on QoQ basis



Source: Company; IDBI Capital Research

Exhibit 7: 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	53,214	57,005
<i>Change (yoy, %)</i>	16.2	16.1	10.1	1.8	(1.0)	7.1
Operating expenses	(34,902)	(41,233)	(44,419)	(46,778)	(45,817)	(48,967)
EBITDA	6,402	6,715	8,362	6,974	7,397	8,038
<i>Change (yoy, %)</i>	21.0	4.9	24.5	(16.6)	6.1	8.7
<i>Margin (%)</i>	15.5	14.0	15.8	13.0	13.9	14.1
Depreciation	(766)	(823)	(850)	(857)	(846)	(906)
EBIT	5,636	5,892	7,512	6,117	6,551	7,131
Interest paid	(130)	(186)	(199)	(234)	(264)	(304)
Other income	662	228	1,035	1,085	317	1,167
Pre-tax profit	6,168	4,424	8,348	6,968	6,604	7,994
Tax	(1,531)	(1,108)	(2,110)	(1,801)	(1,673)	(1,999)
<i>Effective tax rate (%)</i>	24.8	25.1	25.3	25.8	25.3	25.0
Minority Interest	-	-	-	-	-	-
Net profit	4,637	3,316	6,238	5,168	5,338	5,996
Exceptional items	-	(1,510)	-	-	-	-
Adjusted net profit	4,637	4,826	6,238	5,168	4,524	5,996
<i>Change (yoy, %)</i>	44.6	4.1	29.3	(17.2)	(12.5)	32.5
EPS	16.7	17.4	22.5	18.6	16.2	21.4
Dividend per share	4.0	4.5	4.5	6.5	10.1	10.1
<i>Dividend Payout %</i>	24.0	25.9	19.9	34.8	62.2	46.9

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	25,831	24,483	30,441	34,865	36,896	40,078
Share capital	559	550	552	556	556	556
Reserves & surplus	25,272	23,933	29,889	34,310	36,341	39,522
Total Debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Curr Liab & prov	8,003	7,390	8,815	9,759	9,486	10,052
Current liabilities	5,886	5,245	6,540	6,792	6,594	7,063
Provisions	2,117	2,145	2,275	2,967	2,892	2,989
Total liabilities	8,003	7,390	8,815	9,759	9,486	10,052
Total equity & liabilities	33,833	31,873	39,256	44,624	46,383	50,131
Net fixed assets	7,274	7,424	7,087	7,664	7,370	7,168
Investments	162	270	163	293	164	176
Other non-curr assets	1,523	1,737	1,472	1,533	1,208	1,420
Current assets	24,874	22,441	30,534	35,133	37,641	41,367
Inventories	-	-	-	-	-	-
Sundry Debtors	8,488	9,071	10,365	10,513	10,470	11,215
Cash and Bank	3,828	5,566	4,249	4,449	4,259	6,652
Loans and advances	8,402	5,652	13,196	17,646	17,558	17,763
Total assets	33,833	31,873	39,256	44,624	46,383	50,131

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	6,604	7,994
Depreciation	184	576	595	600	592	634
Tax paid	(1,781)	(1,375)	(2,068)	(1,804)	(1,451)	(2,142)
Chg in working capital	(4,793)	1,570	(7,328)	(3,608)	(189)	(402)
Other operating activities	-	2,076	645	1,143	(2,738)	(434)
Cash flow from operations (a)	(221)	7,271	192	3,299	2,817	5,650
Capital expenditure	(411)	(726)	(258)	(1,177)	(298)	(432)
Chg in investments	191	(108)	107	(130)	129	(12)
Other investing activities	222	151	-	-	-	-
Cash flow from investing (b)	1	(683)	(151)	(1,307)	(170)	(444)
Equity raised/(repaid)	4	(3,414)	2	4	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(1,111)	(1,250)	(1,240)	(1,796)	(2,814)	(2,814)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(120)	(186)	(120)	-	-	-
Cash flow from financing (c)	(1,226)	(4,849)	(1,358)	(1,792)	(2,814)	(2,814)
Net chg in cash (a+b+c)	(1,446)	1,738	(1,317)	200	(167)	2,392

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	92.9	88.3	110.0	125.8	131.9	143.3
Adj EPS (Rs)	16.7	17.4	22.5	18.6	16.2	21.4
Adj EPS growth (%)	44.6	4.4	29.5	(17.3)	(13.2)	32.5
EBITDA margin (%)	15.5	14.0	15.8	13.0	13.9	14.1
Pre-tax margin (%)	14.9	9.2	15.8	13.0	12.4	14.0
Net Debt/Equity (x)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
ROCE (%)	23.7	23.4	27.4	18.7	17.8	17.8
ROE (%)	19.5	19.2	22.7	15.8	12.3	15.0
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	1.3	1.3
Net margin (%)	11.2	10.1	11.8	9.6	8.5	10.5
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	23	23

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	24.2	23.1	17.9	21.6	24.9	18.8
Price/Book value (x)	4.3	4.6	3.7	3.2	3.1	2.8
EV/Net sales (x)	2.6	2.2	2.0	2.0	2.0	1.9
EV/EBITDA (x)	16.9	15.8	12.8	15.4	14.7	13.2
Dividend Yield (%)	1.0	1.1	1.1	1.6	2.5	2.5

Source: Company; IDBI Capital Research

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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Most Important Terms and Conditions

1. These terms and conditions, and consent thereon are for the research services provided by the Research Analyst (RA) and RA cannot execute/carry out any trade (purchase/sell transaction) on behalf of, the client. Thus, the clients are advised not to permit RA to execute any trade on their behalf.
2. The fee charged by RA to the client will be subject to the maximum of amount prescribed by SEBI/ Research Analyst Administration and Supervisory Body (RAASB) from time to time (applicable only for Individual and HUF Clients).
Note:
 - 2.1. The current fee limit is Rs 1,51,000/- per annum per family of client for all research services of the RA.
 - 2.2. The fee limit does not include statutory charges.
 - 2.3. The fee limits do not apply to a non-individual client / accredited investor.
3. RA may charge fees in advance if agreed by the client. Such advance shall not exceed the period stipulated by SEBI; presently it is one quarter. In case of pre-mature termination of the RA services by either the client or the RA, the client shall be entitled to seek refund of proportionate fees only for unexpired period.
4. Fees to RA may be paid by the client through any of the specified modes like cheque, online bank transfer, UPI, etc. Cash payment is not allowed. Optionally the client can make payments through Centralized Fee Collection Mechanism (CeFCoM) managed by BSE Limited (i.e. currently recognized RAASB).
5. The RA is required to abide by the applicable regulations/ circulars/ directions specified by SEBI and RAASB from time to time in relation to disclosure and mitigation of any actual or potential conflict of interest. The RA will endeavor to promptly inform the client of any conflict of interest that may affect the services being rendered to the client.
6. Any assured/guaranteed/fixed returns schemes or any other schemes of similar nature are prohibited by law. No scheme of this nature shall be offered to the client by the RA.
7. The RA cannot guarantee returns, profits, accuracy, or risk-free investments from the use of the RA's research services. All opinions, projections, estimates of the RA are based on the analysis of available data under certain assumptions as of the date of preparation/publication of research report.
8. Any investment made based on recommendations in research reports are subject to market risks, and recommendations do not provide any assurance of returns. There is no recourse to claim any losses incurred on the investments made based on the recommendations in the research report. Any reliance placed on the research report provided by the RA shall be as per the client's own judgement and assessment of the conclusions contained in the research report.
9. The SEBI registration, Enlistment with RAASB, and NISM certification do not guarantee the performance of the RA or assure any returns to the client.
10. For any grievances,
 - Step 1: the client should first contact the RA using the details on its website or following contact details:
(RA to provide details as per 'Grievance Redressal / Escalation Matrix')
 - Step 2: If the resolution is unsatisfactory, the client can also lodge grievances through SEBI's SCORES platform at www.scores.sebi.gov.in
 - Step 3: The client may also consider the Online Dispute Resolution (ODR) through the Smart ODR portal at <https://smartodr.in>
11. Clients are required to keep contact details, including email id and mobile number/s updated with the RA at all times.
12. The RA shall never ask for the client's login credentials and OTPs for the client's Trading Account Demat Account and Bank Account. Never share such information with anyone including RA.