

Birlasoft

BUY

Green shoots in turnaround

Summary

Birlasoft reported 3% CC growth in dollar revenues (excluding Invacare), better than peers. It is taking the right step to turnaround the business like focus on delivery, clients, investment in sales and hiring of leaders to drive vertical growth. We expect the company to register QoQ growth in coming quarters led by BFSI, bottoming of ERP business and healthy H2FY24E. However, we have conservatively assumed 6.5% YoY growth in revenues due to macro uncertainty, project run offs and Invacare base. The company also aspires to reach 15-16% EBITDA margins in coming quarters. We have built in a 14.5% EBITDA margins for FY24E. We have kept our estimates unchanged. However, we have revised our multiple upwards to 15x (from 14x) to factor in green shoots in turnaround. Hence, we maintain our BUY rating on the stock with a target price of Rs 340.

Key Highlights and Investment Rationale

- **Organisation re-structuring key growth enabler:** The new CEO has increased focus on select verticals and Geo for which the company has hired vertical & Geo focused leaders. He has also hired Chief Growth Offices and Chief Operating Officer to drive service lines and increase growth trajectory. The company's key focus will be on BFSI, manufacturing & E&U in North America and in terms of service line key focus will be on digital, cloud, ERP, data analytics and Infra. The company will also focus on annuity projects in long run to improve revenue trajectory. In the near term, the company expects BFSI to drive growth followed by manufacturing (led by ERP bottoming) and E&U.
- **Margins to improve in the long run:** Despite Invacare impact the company saw healthy margins and aspires 16% exit in Q4FY24E. Going forward we expect it to register 110 bps improvement in margins over FY23-FY25E led by lower attrition, consolidated delivery & pyramid offset by investment in sales.

TP	Rs340
CMP	Rs288
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	8.3	0.0	(27.1)
Rel to Sensex	5.0	(1.8)	(39.7)

V/s Consensus		
EPS (Rs)	FY24E	FY25E
IDBI Capital	19.1	22.6
Consensus	18.8	22.1
% difference	1.9	2.1

Key Stock Data	
Bloomberg/Reuters	BSOFT IN
Sector	IT Services
Shares o/s (mn)	275
Market cap. (Rs mn)	79,121
3-m daily average value (Rs mn)	26.9
52-week high / low	Rs401 / 250
Sensex / Nifty	61,764 / 18,264

Shareholding Pattern (%)	
Promoters	41.1
FII	11.5
DII	20.5
Public	26.9

Financial snapshot

	(Rs mn)				
Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	35,557	41,304	47,948	52,111	58,364
Change (yoy, %)	8	16	16	9	12
EBITDA	5,292	6,402	6,715	7,556	8,813
Change (yoy, %)	35	21	5	13	17
EBITDA Margin(%)	14.9	15.5	14.0	14.5	15.1
Adj.PAT	3,208	4,637	4,826	5,172	6,103
EPS (Rs)	11.5	16.7	17.9	19.1	22.6
Change (yoy, %)	42	45	7	7	18
PE(x)	25	17	16	15	13
Dividend Yield (%)	1	1	1	2	2
EV/EBITDA (x)	14	12	11	10	8
RoE (%)	15.8	19.5	19.6	20.3	20.5
RoCE (%)	22	24	24	26	26

Source: IDBI Capital Research

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Con call Highlights

- The company reported revenue growth of 3% in cc terms excluding Invacare services (0.5% including Invacare). The company is expected to receive \$2mn after the case settlement and will have to keep servicing Invacare for 2 more months.
- In terms of verticals BFSI vertical grew by 2.5% on QoQ led by landing and payment sub-vertical; going forward management expects BFSI to be the fastest growing vertical. However, Management remains cautious on manufacturing, E&U and life science verticals due to macroeconomic headwinds. The company has also hired leaders in Manufacturing and E&U verticals to drive growth.
- On demand front, customers want to spend on IT, but the spending would drive more improvement in operational efficiency and cost efficiency. ERP front management believes it has bottomed out, expecting green shot from going ahead.
- Management wants to work with fewer clients to build strong relationship with them, indicating decrease in no of clients in couple of quarters.
- Signed deals worth \$286 mn, new deal wins stood at \$114 mn, down 8.8% and up by 12% YoY & QoQ. Deal renewals worth \$173 mn, up 34% and 78% QoQ /YoY. TTM deal wins stands at \$869 mn. Company informed that the new deal pipeline is growing at a healthy pace. Witnessing growth momentum in deal wins but delays in execution.
- Not seeking for any M&A in near term, aiming for external hiring and internal promotion and The company has a wage hike cycle in Q2.
- EBITDA margin for Q4FY23 was up by 65bps and stood at 13.6% led by improvement in attrition, operational efficiency
- Company expects reducing supply side challenges and revenue growth to aid sequential margin expansion from H2FY24 led by investments being made in delivery, leadership and verticals.
- Company aims to maintain EBITDA margin in the range of 15-16% in near to medium term and is investing in building capabilities to achieve 18% margin in the longer run.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Revenues (US\$ mn)	149.1	148.4	0.5	146.4	1.8
Revenues	12,264	12,219	0.4	11,014	11.3
COGS	7,294	7,320	(0.3)	6,297	15.8
Gross profit	4,970	4,899	1.4	4,718	5.3
SG&A	3,300	3,316	(0.5)	2,972	11.0
EBITDA	1,670	1,584	5.4	1,745	(4.3)
Depreciation & amortization	210	210	(0.2)	200	5.0
EBIT	1,460	1,374	6.3	1,546	(5.5)
Other income	-63	68	n.m.	190	n.m.
PBT	1,397	1,442	(3.1)	1,736	(19.5)
Tax	276	95	189.1	407	(32.3)
Minority interest			n.m.		n.m.
Adjusted net profit	1,122	1,347	(16.7)	1,329	(15.6)
Exceptional item	0	1,510	n.m.	0	n.m.
Reported net profit	1,122	-164	n.m.	1,329	n.m.
Diluted EPS (Rs)	4.0	(0.6)	(785.6)	4.7	(13.6)
As % of net revenue					
Gross profit	40.5	40.1		42.8	
SG&A	26.9	27.1		27.0	
EBITDA	13.6	13.0		15.8	
EBIT	11.9	11.2		14.0	
Reported net profit	9.1	(1.3)		12.1	
Tax rate	19.7	6.6		23.4	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY24F			FY25F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	634	636	-0.4%	710	712	-0.3%
Revenue (Rs mn)	52,111	52,265	-0.3%	58,364	58,537	-0.3%
EBIT (Rs mn)	6,670	6,585	1.3%	7,821	7,668	2.0%
EBIT margin (%)	12.8%	12.6%	20 bps	13.4%	13.1%	30 bps
EPS (Rs)	19.3	19.3	-0.3%	22.7	22.7	0.1%

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

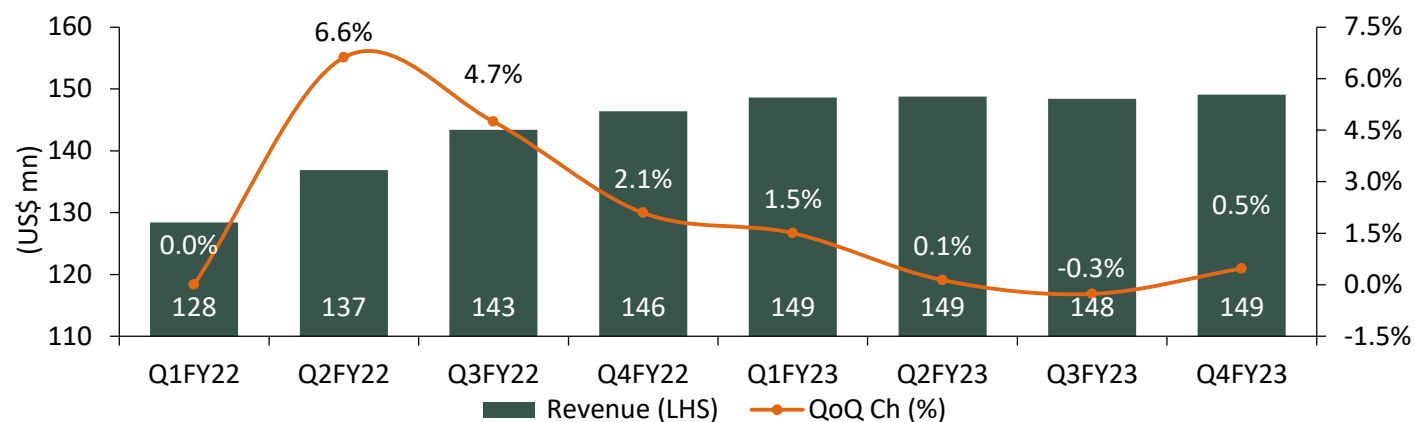
Year to March	Q4FY23	Q4FY23E	Variance (%)
Revenue (US\$ mn)	149.1	147.4	1.2%
Revenue (Rs mn)	12,264	12,120	1.2%
EBIT (R smn)	1,460	1,220	19.6%
EBIT margin (%)	11.9%	10.1%	184 bps
Recurring PAT (Rs mn)	1,122	1,006	11.5%
Recurring PAT margin (%)	9.1%	8.3%	84 bps
EPS (Rs)	4.0	3.6	11.5%

Source: Company; IDBI Capital Research

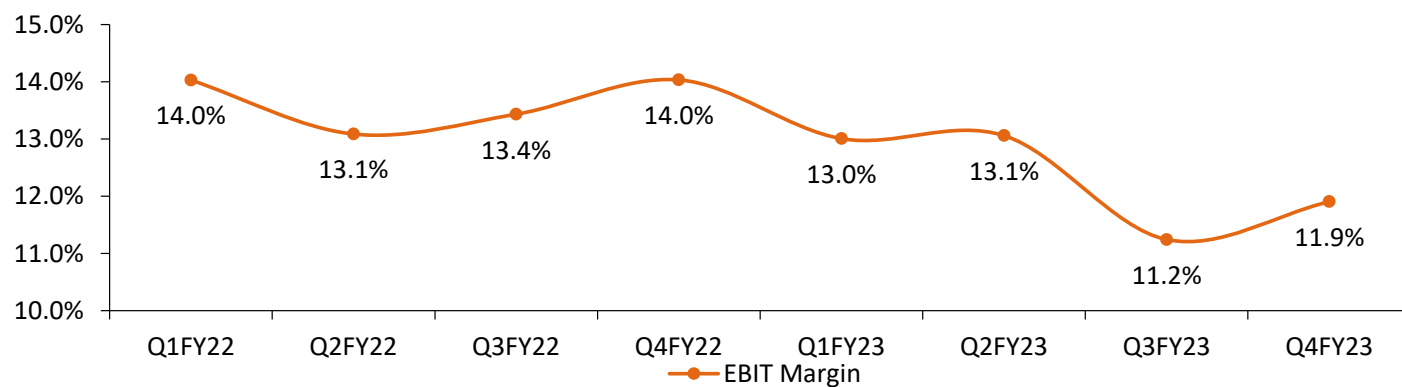
Exhibit 4: Large clients trend

Year-end: March	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
US\$1 mn+	76	77	76	77	80	82	76	83
US\$5 mn+	22	22	20	21	25	25	27	24
US\$10 mn+	9	10	12	12	13	13	14	13

Source: Company; IDBI Capital Research

Exhibit 5: Q4FY23 revenue growth in line with estimates

Source: Company; IDBI Capital Research

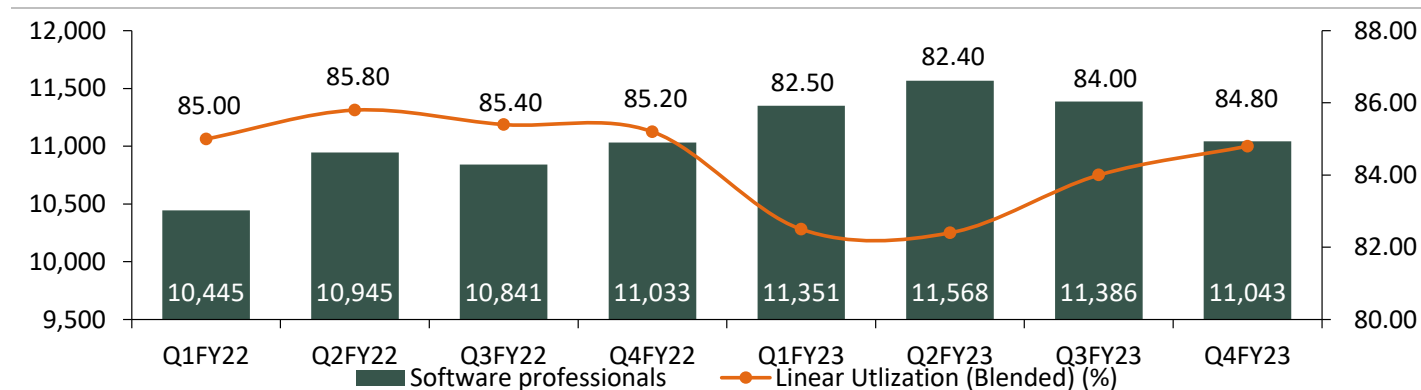
Exhibit 6: Q4FY23 EBIT margin at 11.9% was higher than our estimate

Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

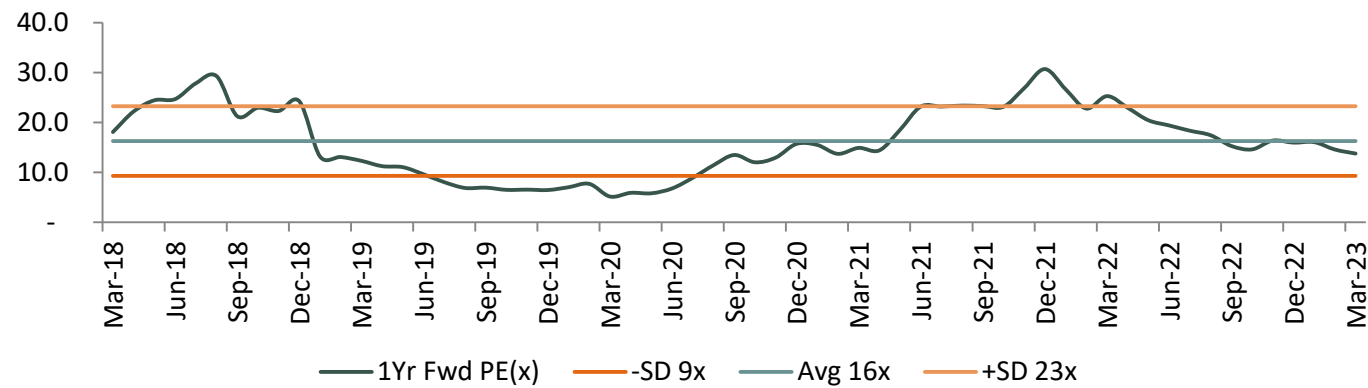
Parameters	% of revenue	QoQ growth (in CC)	YoY growth (in CC)
Total revenue		0.5%	1.8%
Geography			
US	85.30	2.4%	5.7%
Europe	9.00	-12.2%	-18.2%
ROW	5.70	-4.6%	-12.0%
Verticals			
Manufacturing	47.10	2.7%	4.1%
BFSI	20.50	2.5%	21.4%
Energy & utility	14.90	7.7%	0.5%
Lifescience	17.60	-11.1%	-17.0%

Source: Company; IDBI Capital Research

Exhibit 8: Utilisation including trainees improved by 80 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	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	32,910	35,557	41,304	47,948	52,111	58,364
<i>Change (yoy, %)</i>	29	8	16	16	9	12
Operating expenses	(28,991)	(30,265)	(34,902)	(41,233)	(44,555)	(49,551)
EBITDA	3,919	5,292	6,402	6,715	7,556	8,813
<i>Change (yoy, %)</i>	28	35	21	5	13	17
<i>Margin (%)</i>	12	15	15	14	15	15
Depreciation	(826)	(804)	(766)	(823)	(886)	(992)
EBIT	3,093	4,488	5,636	5,892	6,670	7,821
Interest paid	(161)	(130)	(130)	(186)	(186)	(186)
Other income	430	190	662	228	476	580
Pre-tax profit	3,362	4,548	6,168	4,424	6,961	8,214
Tax	(1,119)	(1,340)	(1,531)	(1,108)	(1,789)	(2,111)
<i>Effective tax rate (%)</i>	33	29	25	25	26	26
Minority Interest	-	-	-	-	-	-
Net profit	2,243	3,208	4,637	3,316	5,172	6,103
Exceptional items	-	-	-	(1,510)	-	-
Adjusted net profit	2,243	3,208	4,637	4,826	5,172	6,103
<i>Change (yoy, %)</i>	(5)	43	45	4	7	18
EPS	8.1	11.5	16.7	17.9	19.1	22.6
Dividend per share	4	2	4	3	4	5
<i>Dividend Payout %</i>	44	17	24	19	23	24

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E*	FY24E	FY25E
Shareholders' funds	18,924	21,799	25,831	23,456	27,419	32,044
Share capital	553	555	559	543	543	543
Reserves & surplus	18,371	21,245	25,272	22,913	26,875	31,501
Total Debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Curr Liab & prov	7,949	8,145	8,003	9,749	9,811	10,841
Current liabilities	5,609	5,821	5,886	7,325	7,440	8,333
Provisions	2,340	2,324	2,117	2,423	2,371	2,508
Total liabilities	7,949	8,145	8,003	9,749	9,811	10,841
Total equity & liabilities	26,873	29,944	33,833	33,205	37,230	42,885
Net fixed assets	7,533	7,047	7,274	7,075	6,866	6,633
Investments	35	353	162	188	205	229
Other non-curr assets	2,273	1,492	1,524	1,161	1,793	2,105
Current assets	17,032	21,053	24,874	24,780	28,366	33,918
Inventories	-	-	-	-	-	-
Sundry Debtors	8,140	6,318	8,488	9,171	9,967	11,163
Cash and Bank	6,301	5,274	3,828	2,296	4,612	8,257
Loans and advances	499	5,710	8,402	8,489	8,543	8,625
Total assets	26,873	29,944	33,833	33,205	37,230	42,885

* Annual report awaited

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E*	FY24E	FY25E
Pre-tax profit	3,362	4,548	6,168	4,424	6,961	8,214
Depreciation	347	804	184	576	620	695
Tax paid	(702)	(1,051)	(1,781)	(799)	(2,163)	(2,253)
Chg in working capital	1,802	(3,164)	(4,793)	921	(823)	(300)
Other operating activities	1,558	3,169	-	(525)	(603)	(745)
Cash flow from operations (a)	6,368	4,306	(221)	4,596	3,991	5,611
Capital expenditure	(2,000)	(318)	(411)	(377)	(412)	(461)
Chg in investments	49	(318)	191	(26)	(16)	(25)
Other investing activities	(91)	(3,729)	222	151	112	-
Cash flow from investing (b)	(2,041)	(4,365)	1	(252)	(316)	(486)
Equity raised/(repaid)	5	1	4	(4,750)	0	-
Debt raised/(repaid)	(381)	-	-	-	-	-
Dividend (incl. tax)	(996)	(554)	(1,111)	(940)	(1,209)	(1,478)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(425)	(416)	(120)	(186)	(120)	-
Cash flow from financing (c)	(1,797)	(969)	(1,226)	(5,876)	(1,329)	(1,478)
Net chg in cash (a+b+c)	2,530	(1,028)	(1,446)	(1,532)	2,346	3,648

* Annual report awaited

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	68	78	93	87	101	119
Adj EPS (Rs)	8	12	17	18	19	23
Adj EPS growth (%)	-31	42	45	7	7	18
EBITDA margin (%)	12	15	15	14	15	15
Pre-tax margin (%)	10	13	15	9	13	14
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	17	22	24	24	26	26
ROE (%)	12.4	15.8	19.5	19.6	20.3	20.5
DuPont Analysis						
Asset turnover (x)	1.3	1.3	1.3	1.4	1.5	1.5
Leverage factor (x)	1.4	1.4	1.3	1.4	1.4	1.3
Net margin (%)	6.8	9.0	11.2	10.1	9.9	10.5
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	90	65	75	70	70	70
Payable days	24	16	22	22	22	22

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	35.5	24.9	17.3	16.1	15.0	12.7
Price/Book value (x)	4.2	3.7	3.1	3.3	2.8	2.4
EV/Net sales (x)	2.2	2.1	1.8	1.6	1.4	1.2
EV/EBITDA (x)	19	14	12	11	10	8
Dividend Yield (%)	1	1	1	1	2	2

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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

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