

Birlasoft

BUY

Well poised for growth

Summary

Birlasoft reported 1.7% QoQ growth excluding on off from invacare. This growth is still good considering macro uncertainty. 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% YoY growth in revenues due to macro uncertainty and Invacare base. The company aims to achieve 16% exit margins by Q4FY24E. Considering Q1 performance led by gross margin expansion we have revised our margin estimates upwards leading to EPS revision of 6.7% & 4.4% for FY24E & FY25E. Hence, we maintain our BUY rating on the stock with a target price of Rs 475 (20x FY25E EPS).

Key Highlights and Investment Rationale

- Taking the right step:** 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 (a laggard in past few quarters). 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 & lifesciences will be key long term drivers considering the tech spend potential. It's key focus will be on BFSI, manufacturing & lifescience. The company will also focus on annuity projects in long run. Hence, we have a constructive view on the company from long term perspective.
- Margins have turnaround:** Birlasoft expects margins to improve QoQ despite wage hikes and aspires 16% exit in Q4FY24E (EBITDA). Considering this we now expect EBITDA margins to improve by 162 bps & 37 bps to 15.6% & 16.0% in FY24E & FY25E mainly led by lower attrition, higher utilisation & pyramid.

TP Rs475
CMP Rs402

Potential upside/downside 18%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	18.3	50.3	25.9
Rel to Sensex	13.0	40.4	6.0

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	20.7	23.8
Consensus	18.9	22.3
% difference	9.5	6.6

Key Stock Data

Bloomberg/Reuters	BSOFT IN
Sector	IT Services
Shares o/s (mn)	275
Market cap. (Rs mn)	110,731
3-m daily average value (Rs mn)	77.9
52-week high / low	Rs398 / 250
Sensex / Nifty	66,267 / 19,660

Shareholding Pattern (%)

Promoters	41.0
FII	11.3
DII	23.6
Public	24.1

Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	35,557	41,304	47,948	51,658	57,857
Change (yoy, %)	8	16	16	8	12
EBITDA	5,292	6,402	6,715	8,073	9,257
Change (yoy, %)	35	21	5	20	15
EBITDA Margin(%)	14.9	15.5	14.0	15.6	16.0
Adj.PAT	3,208	4,637	4,826	5,709	6,571
EPS (Rs)	11.5	16.7	17.5	20.7	23.8
Change (yoy, %)	42	45	5	18	15
PE(x)	35	24	23	19	17
Dividend Yield (%)	0	1	1	1	2
EV/EBITDA (x)	20	17	16	13	11
RoE (%)	15.8	19.5	19.2	21.5	21.2
RoCE (%)	22	24	23	27	27

Source: IDBI Capital Research

Devang Bhatt

 devang.bhatt@idbicapital.com
 +91-22-2217 1846

Dhawal Doshi

 dhawal.doshi@idbicapital.com
 +91-22-2217 1841

Con call Highlights

- Company recorded revenue of US\$151.6 mn (excluding US\$2mn revenue from Invacare); growth of 2.7%/3.6% QoQ/YoY in CC terms. Total revenue grew 3%/3.4% QoQ/YoY in \$ terms. Growth was driven by manufacturing (+4.6% QoQ), BFSI (+4% QoQ) and Lifescience (+2.6% QoQ) verticals. In terms of regions, Europe grew 15.6% QoQ, Americas grew by 1.4% QoQ and RoW grew by 8.4% QoQ. In terms of service lines, Infrastructure and ERP grew at a rate higher than the company's growth and are expected to continue to do well going forward.
- Gross margin recorded a growth of 65 bps QoQ to 41.2%. Consequently, EBIT margin expanded by 170bps QoQ to 13.6%. Margin expansion was due to lower SG&A expenses, higher utilization & lower attrition.
- Company signed deals worth TCV of US\$ 146mn (-21%/-49% QoQ/YoY). 55% of the deal signings were net new deals. Shifting of few deals from Q1FY24 to Q2FY24E and seasonality led to softness in deal signings. Company expects pickup in deal closures from the next quarter. Management aspires to close deal signings worth \$200 mn per quarter going forward. Deal pipeline continues to remain strong as customers are willing to spend on IT, but the spending would be inclined towards cost efficiency and customer experience which deliver quicker Rol. Also, there has been a demand for Gen AI related projects in verticals like lifesciences and manufacturing.
- Demand trend – the demand environment continued to remain challenging. 1) In terms of the BFSI vertical (20.7% of total revenue), management stated that Birlasoft is currently engaged with lending and payment and financial services infrastructure companies. These sub segments are seeing good momentum which will help this vertical grow faster than the company's growth in FY24E. Also, Birlasoft is underpenetrated in the financial services vertical and hence has a huge room for growth. 2) Currently the company is underpenetrated in Lifesciences vertical. Going forward, this vertical will see pickup in demand and is expected to rebound in the near future. 3) In the ERP service vertical, management believes that a lot of on premise work will move to cloud by 2027-28. This provides enormous growth opportunities from a longer term perspective.
- Company aims to grow above industry average in the near term for which it has hired various leaders and is in process of hiring a COO. Aspires for EBIDTA margin of 16% by Q4FY24E despite wage hike in Sept.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
Revenues (US\$ mn)	153.6	149.1	3.0	148.6	3.4
Revenues	12,628	12,264	3.0	11,544	9.4
COGS	7,428	7,294	1.8	6,579	12.9
Gross profit	5,200	4,970	4.6	4,966	4.7
SG&A	3,268	3,300	(1.0)	3,268	0.0
EBITDA	1,931	1,670	15.7	1,698	13.7
Depreciation & amortization	214	210	2.0	196	8.8
EBIT	1,717	1,460	17.6	1,502	14.4
Other income	98	(63)	n.m.	122	(19.6)
PBT	1,816	1,397	30.0	1,624	11.8
Tax	440	276	59.8	417	5.7
Minority interest					
Adjusted net profit	1,375	1,122	22.6	1,207	13.9
Exceptional item	0	0	n.m.	0	n.m.
Reported net profit	1,375	1,122	n.m.	1,207	n.m.
Diluted EPS (Rs)	4.9	4.0	22.4	4.3	15.8
As % of net revenue					
Gross profit	41.2	40.5		43.0	
SG&A	25.9	26.9		28.3	
EBITDA	15.3	13.6		14.7	
EBIT	13.6	11.9		13.0	
Reported net profit	10.9	9.1		10.5	
Tax rate	24.3	19.7		25.7	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY24F			FY25F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	628	634	-0.9%	704	710	-0.9%
Revenue (Rs mn)	51,658	52,111	-0.9%	57,857	58,364	-0.9%
EBIT (Rs mn)	7,214	6,670	8.2%	8,274	7,821	5.8%
EBIT margin (%)	14.0%	12.8%	116 bps	14.3%	13.4%	90 bps
EPS (Rs)	20.6	19.3	6.7%	23.7	22.7	4.4%

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

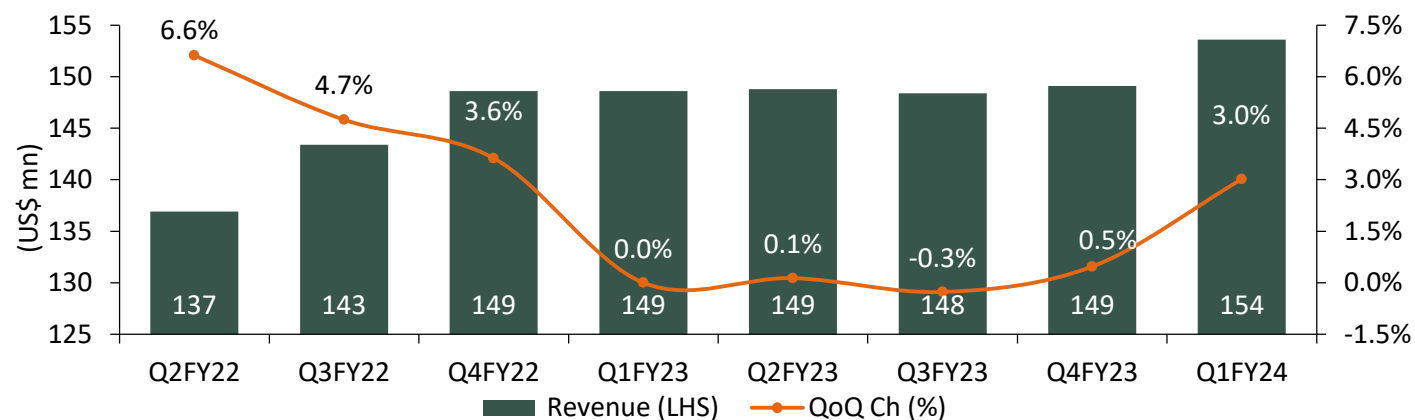
Year to March	Q1FY24	Q1FY24E	Variance (%)
Revenue (US\$ mn)	153.6	150.6	2.0%
Revenue (Rs mn)	12,628	12,380	2.0%
EBIT (R smn)	1,717	1,552	10.6%
EBIT margin (%)	13.6%	12.5%	106 bps
Recurring PAT (Rs mn)	1,375	1,207	13.9%
Recurring PAT margin (%)	10.9%	9.8%	114 bps
EPS (Rs)	4.9	4.4	13.0%

Source: Company; IDBI Capital Research

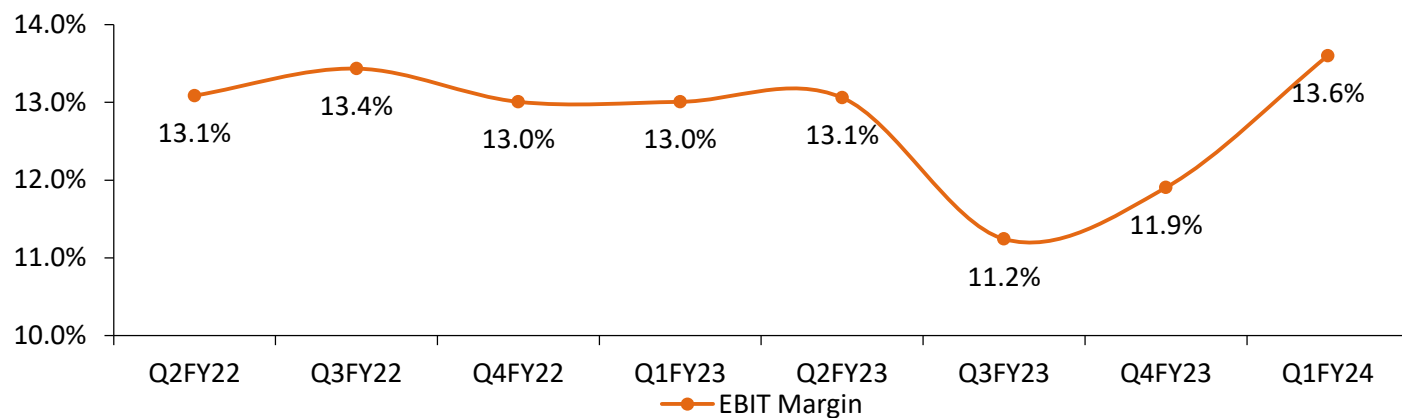
Exhibit 4: Large clients trend

Year-end: March	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
US\$1 mn+	76	77	80	82	76	83	83	86
US\$5 mn+	20	21	25	25	27	24	26	27
US\$10 mn+	12	12	13	13	14	13	13	13

Source: Company; IDBI Capital Research

Exhibit 5: Q1FY24 revenue growth was above our estimates

Source: Company; IDBI Capital Research

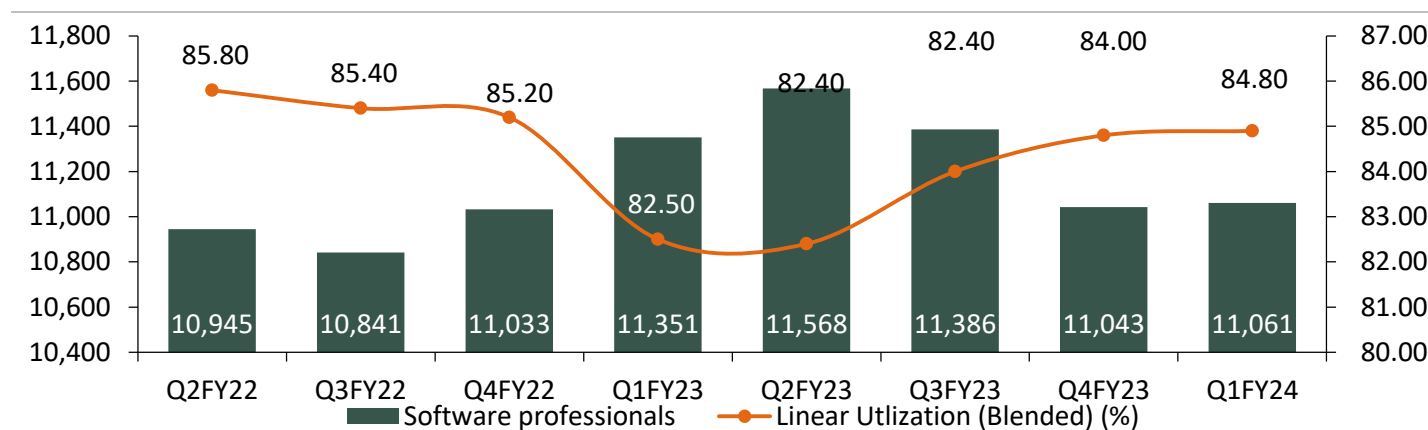
Exhibit 6: Q1FY24 EBIT margin at 13.6% was higher than our estimate

Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

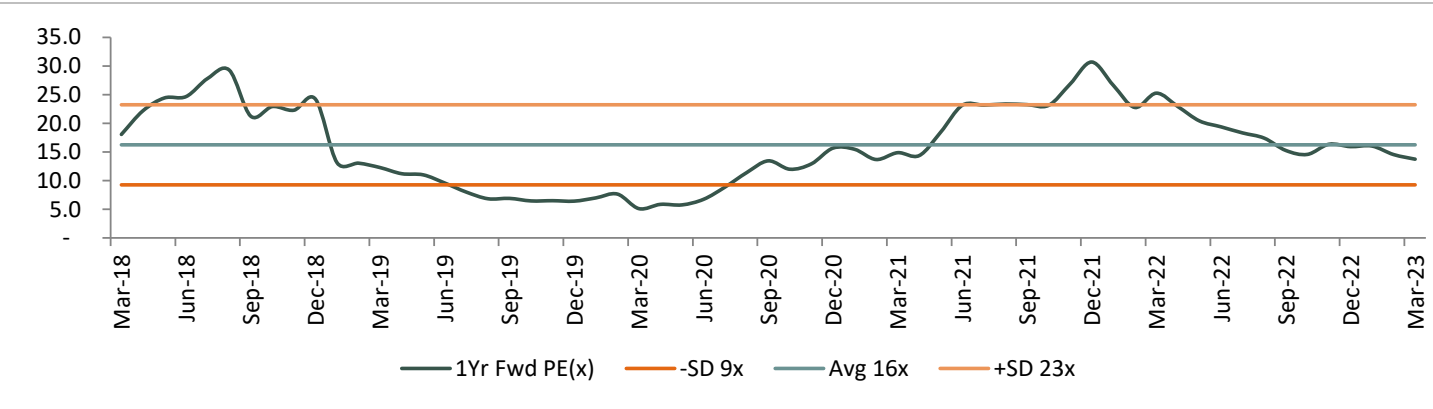
Parameters	% of revenue	QoQ growth (in CC)	YoY growth (in CC)
Total revenue		2.7%	3.6%
Geography			
US	84.00	1.4%	2.3%
Europe	10.10	15.6%	13.5%
ROW	6.00	8.4%	5.1%
Verticals			
Manufacturing	40.70	4.6%	1.6%
BFSI	20.70	4.0%	20.2%
Energy & utility	14.30	-1.1%	3.4%
Lifescience	24.40	2.6%	-4.8%

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	FY23	FY24E	FY25E
Net sales	32,910	35,557	41,304	47,948	51,658	57,857
<i>Change (yoy, %)</i>	29	8	16	16	8	12
Operating expenses	(28,991)	(30,265)	(34,902)	(41,233)	(43,585)	(48,600)
EBITDA	3,919	5,292	6,402	6,715	8,073	9,257
<i>Change (yoy, %)</i>	28	35	21	5	20	15
<i>Margin (%)</i>	12	15	15	14	16	16
Depreciation	(826)	(804)	(766)	(823)	(860)	(984)
EBIT	3,093	4,488	5,636	5,892	7,213	8,274
Interest paid	(161)	(130)	(130)	(186)	(167)	(167)
Other income	430	190	662	228	564	655
Pre-tax profit	3,362	4,548	6,168	4,424	7,609	8,761
Tax	(1,119)	(1,340)	(1,531)	(1,108)	(1,900)	(2,190)
<i>Effective tax rate (%)</i>	33	29	25	25	25	25
Minority Interest	-	-	-	-	-	-
Net profit	2,243	3,208	4,637	3,316	5,709	6,571
Exceptional items	-	-	-	(1,510)	-	-
Adjusted net profit	2,243	3,208	4,637	4,826	5,709	6,571
<i>Change (yoy, %)</i>	(5)	43	45	4	18	15
EPS	8.1	11.5	16.7	17.5	20.7	23.8
Dividend per share	4	2	4	5	6	7
<i>Dividend Payout %</i>	44	17	24	26	27	27

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	18,924	21,799	25,831	24,483	28,668	33,436
Share capital	553	555	559	550	550	550
Reserves & surplus	18,371	21,245	25,272	23,933	28,118	32,886
Total Debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Curr Liab & prov	7,949	8,145	8,003	7,390	8,550	9,454
Current liabilities	5,609	5,821	5,886	5,245	6,490	7,269
Provisions	2,340	2,324	2,117	2,145	2,060	2,185
Total liabilities	7,949	8,145	8,003	7,390	8,550	9,454
Total equity & liabilities	26,873	29,944	33,833	31,873	37,218	42,890
Net fixed assets	7,533	7,047	7,274	7,424	7,186	6,899
Investments	35	353	162	273	294	329
Other non-curr assets	2,273	1,492	1,524	1,737	2,932	3,376
Current assets	17,032	21,053	24,874	22,439	26,806	32,285
Inventories	-	-	-	-	-	-
Sundry Debtors	8,140	6,318	8,488	9,071	9,880	11,066
Cash and Bank	6,301	5,274	3,828	5,535	6,039	9,613
Loans and advances	499	5,710	8,402	5,631	5,689	5,785
Total assets	26,873	29,944	33,833	31,873	37,218	42,890

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	3,362	4,548	6,168	4,424	7,609	8,761
Depreciation	347	804	184	576	602	689
Tax paid	(702)	(1,051)	(1,781)	(1,375)	(2,712)	(2,454)
Chg in working capital	1,802	(3,164)	(4,793)	1,590	268	(420)
Other operating activities	1,558	3,169	-	2,027	(3,347)	(762)
Cash flow from operations (a)	6,368	4,306	(221)	7,242	2,421	5,814
Capital expenditure	(2,000)	(318)	(411)	(726)	(364)	(402)
Chg in investments	49	(318)	191	(110)	(21)	(35)
Other investing activities	(91)	(3,729)	222	151	112	-
Cash flow from investing (b)	(2,041)	(4,365)	1	(685)	(273)	(437)
Equity raised/(repaid)	5	1	4	(3,414)	1	-
Debt raised/(repaid)	(381)	-	-	-	-	-
Dividend (incl. tax)	(996)	(554)	(1,111)	(1,250)	(1,525)	(1,802)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(425)	(416)	(120)	(186)	(120)	-
Cash flow from financing (c)	(1,797)	(969)	(1,226)	(4,849)	(1,644)	(1,802)
Net chg in cash (a+b+c)	2,530	(1,028)	(1,446)	1,707	504	3,574

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	68	78	93	89	104	121
Adj EPS (Rs)	8	12	17	18	21	24
Adj EPS growth (%)	-31	42	45	5	18	15
EBITDA margin (%)	12	15	15	14	16	16
Pre-tax margin (%)	10	13	15	9	15	15
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	17	22	24	23	27	27
ROE (%)	12.4	15.8	19.5	19.2	21.5	21.2
DuPont Analysis						
Asset turnover (x)	1.3	1.3	1.3	1.5	1.5	1.4
Leverage factor (x)	1.4	1.4	1.3	1.3	1.3	1.3
Net margin (%)	6.8	9.0	11.2	10.1	11.1	11.4
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	90	65	75	69	70	70
Payable days	24	16	22	20	21	21

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	49.6	34.8	24.1	23.0	19.4	16.9
Price/Book value (x)	5.9	5.1	4.3	4.5	3.9	3.3
EV/Net sales (x)	3.2	3.0	2.6	2.2	2.0	1.7
EV/EBITDA (x)	27	20	17	16	13	11
Dividend Yield (%)	1	0	1	1	1	2

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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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**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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