

Announces buyback at ₹ 500 per share

About the stock: Birlasoft Ltd (Birlasoft) has strength in non-ERP digital businesses like CRM, B & data analytics, app development & enterprise solution.

- The company caters to manufacturing, BFSI, energy & utility and lifescience
- Debt free and healthy double digit return ratio (with RoCE of >19%)

Q4FY22 Results: Birlasoft reported strong numbers on the margin front.

- Revenue was up 2.2% in CC, 2.1% QoQ in dollar terms
- EBITDA margins were up 66 bps QoQ to 15.8%
- The company announced buyback of ₹ 390 crore at ₹ 500 per share

What should investors do? Birlasoft's share price has grown by ~3.3x since it demerger (from ~₹ 114 in February 2019 to ~₹ 374 levels in May 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Birlasoft at ₹ 440 i.e. 22x P/E on FY24E EPS.

Key triggers for future price performance:

- Revenue growth is expected to be achieved via client mining, cross sell, multi-year deals, expansion in Europe & APAC and focus on niche verticals
- Aspiration to reach US\$1 bn revenues, out of which US\$800-850 mn organic growth while rest from inorganic opportunities
- Expect dollar revenues to grow at 13.7% CAGR over FY22-24E
- Margin expansion of 50 bps to 16.0% over FY22-24E

Alternate Stock Idea: Apart from Birlasoft, in our IT coverage we also like Mastek.

- Growth in new logo acquisition, increasing deal size, expansion of sales & marketing and market share gains to drive revenues
- HOLD with target price of ₹ 3,100



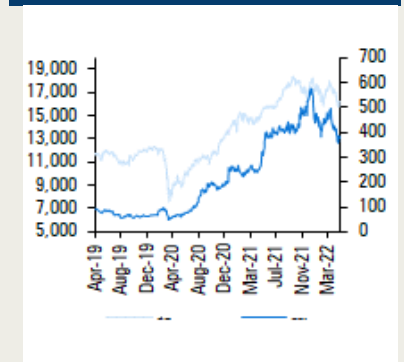
Particulars

Particular	Amount
Market Cap (₹ Crore)	10,346
Total Debt	-
Cash and Invest (₹ Crore)	1,169
EV (₹ Crore)	9,177
52 week H/L	585/238
Equity capital	55.9
Face value	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	40.7	40.7	40.6	40.4
FII	17.3	17.4	17.4	15.4
DII	19.6	22.0	21.4	22.7
Public	22.4	20.0	20.7	21.4

Price Chart



Recent event & key risks

- Buyback at ₹ 500 per share
- **Key Risk:** (i) Deceleration in deal pipeline, (ii) Higher than expected attrition

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	3,291	3,556	4,130	17.4%	4,829	5,385	14.2%
EBITDA	392	529	640	27.8%	758	862	16.0%
EBITDA Margins (%)	11.9	14.9	15.5		15.7	16.0	
Net Profit	224	321	464	19.5%	503	570	10.9%
EPS (₹)	8.1	11.6	16.3		17.7	20.1	
P/E	46.1	32.4	22.5		20.8	18.3	
RoNW (%)	11.9	14.7	17.9		17.6	17.8	
RoCE (%)	17.0	19.8	23.1		23.3	23.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter grew 2.1% QoQ in dollar terms to US\$146.4 mn. In rupee terms, the company reported revenue growth of 2.8% QoQ to ₹ 1,101.4 crore. For FY22, the company reported 15.8%, 16.2% growth in revenues in dollar, rupee terms, respectively, to US\$552 mn, ₹ 4130 crore, respectively
- Geography wise, US (82.2% mix) grew 1.2% QoQ. Europe (11.2% mix) grew 6.9% QoQ while RoW grew 5.3% QoQ. Vertical wise revenue from manufacturing grew 4.1% QoQ while energy & utilities grew 4.2% QoQ. BFSI vertical reported de-growth of -0.8% QoQ. Life sciences reported de-growth of 1.1% QoQ
- The company reported TCV of US\$222 mn, up 22% QoQ. For FY22, it reported TCV of US\$696mn, out of which, US\$444 mn were new deals for the year while US\$252 mn were renewals. The company mentioned that since incremental deals are becoming shorter in size, TCV numbers may look flattish. Hence, renewals is the right number to look at
- The company continued to guide aspiration of US\$1 bn revenue in FY25. It mentioned that, out of this, organic contribution is expected to be in the range of US\$800-850 mn while rest US\$150-200mn would come from inorganic opportunity. The company mentioned that it is not looking for a series of tuck in acquisitions to reach revenue target and preference is for a single large deal. The company also mentioned that it can spend up to US\$300 mn for the acquisition. It mentioned that it is looking at companies in the digital/cloud capabilities for acquisition. The company is confident that revenue growth in FY23 would be better than its reported FY22 growth
- EBITDA margins improved ~66 bps QoQ to 15.8% aided by lower SG&A expenses. For FY22, the company reported EBITDA margins of 15.5% which was up 60 bps and in line with its guidance of 15%+ EBITDA margins. The company is confident of further EBITDA margin expansion inFY23 and called out following tailwinds for the same: i) Revenue growth ii) Further utilisation improvement iii) pricing improvement, the company has been getting price hikes in selected areas. iv) lower subcontractor costs, while the headwinds would be i) Higher salary costs ii) recovery in travel costs. The company added 1800 freshers in FY22 and planning to add 2000-2200 freshers in FY23
- Attrition on LTM basis has increased ~290 bps QoQ to a high of 34.3% amid supply side challenges. The company mentioned that attrition may look higher on LTM basis while on quarterly annualised basis, it was down 30 bps from 34.7% to 34.3%. It mentioned that it is working on many initiatives to tackle high attrition such as i) salary hikes and promotions ii) long term career planning for key employees and rewarding them iii) the company is also hopeful that work from office will also help in reduction of the same
- The company declared a final dividend of ₹ 3 per share for FY22 while total dividend was at ₹ 4.5 per share for the year. It announced buyback of ₹ 390 crore (7.8 mn equity shares at ₹ 500 per share price) at tender route. It mentioned that at this moment, they are unsure about who would be participating in the buyback including promoters
- The company re-appointed Dharmander Kapoor as CEO & MD for three years effective from June 1, 2022
- The company mentioned that DSO for the quarter increased due to some administrative delay at the client side and DSO is expected to trend downward, going forward.

Exhibit 1: P&L

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	1,101	903	22.0	1,072	2.8	Revenue grew by 2.2% in CC terms
Employee expense	630	535	17.6	607	3.8	
Gross Margin	472	367	28.4	465	1.4	
Gross margin (%)	42.8	40.7	213 bps	43.4	-57 bps	
Other expense	297	215	38.2	302	-1.7	
EBITDA	174.5	152.4	14.5	162.8	7.2	
EBITDA Margin (%)	15.8	16.9	-103 bps	15.2	66 bps	Margins improved due to lower other expenses
Depreciation & amortisation	20	18	12.3	19	6.5	
EBIT	155	135	14.8	144	7.3	
EBIT Margin (%)	14.0	14.9	-87 bps	13.4	60 bps	
Other income (less interest)	23	5	344.4	13	77.3	
PBT	177	140	26.8	157	13.0	
Tax paid	41	38	7.6	35	16.1	
PAT	136	102	34.0	122	12.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,881	4,829	-1.1	5,662	5,385	-4.9	We re-aligned numbers on FY22 performance
EBITDA	796	758	-4.7	974.0	862	-11.5	
EBITDA Margin (%)	16.3	15.7	-61 bps	17.2	16.0	-120 bps	We are building in higher employee costs due to higher attrition
PAT	529	503	-5.0	648.0	570	-12.1	
EPS (₹)	19	17.7	-5.0	23.4	20.1	-12.1	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit & loss statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	3,556	4,130	4,829	5,385
Growth (%)	8.0	16.2	16.9	11.5
COGS (employee expenses)	2,116	2,369	2,767	3,069
Other expenses	911	1,121	1,304	1,454
Total Operating Expenditure	3,027	3,490	4,071	4,523
EBITDA	529	640	758	862
Growth (%)	35.0	21.0	18.4	13.6
Depreciation	80	77	97	108
Other income (net)	6	53	27	27
PBT	455	617	688	781
Total Tax	134	153	186	211
PAT	321	464	503	570
Growth (%)	43.0	44.6	8.4	13.4
Diluted EPS (₹)	11.6	16.3	17.7	20.1
Growth (%)	44.0	40.7	8.4	13.4

Source: Company, ICICI Direct Research,

Exhibit 4: Cash flow statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit	321	464	688	781
Add: Depreciation	80	77	97	108
Others	5	22	(27)	(27)
Inc/(dec) in working capital	84	(256)	(143)	(113)
Taxes paid	(67)	(178)	(186)	(211)
CF from operating activities	558	281	429	538
(Inc)/dec in Fixed Assets	(25)	(64)	(82)	(92)
Others	(420)	(243)	40	40
CF from investing activities	(444)	(307)	(42)	(52)
Dividend paid & dividend tax	(55)	(111)	(227)	(227)
Others	(41)	(36)	(13)	(13)
CF from financing activities	(97)	(147)	(240)	(240)
Net Cash flow	17	(173)	147	246
Exchange difference	-	(3)	-	-
Opening Cash	505	558	383	529
Closing cash & Bank	558	383	529	775

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	55	56	56	56
Reserve and Surplus	2,124	2,527	2,803	3,145
Total Shareholders funds	2,180	2,583	2,858	3,201
Total Debt	-	-	-	-
Lease liability	100	91	91	91
Provisions	80	49	58	64
Other non current liabilities	-	-	-	-
Total Liabilities	2,360	2,723	3,007	3,356
Assets				
Property, plant and equipment	122	147	161	177
Goodwill	448	457	457	457
Intangibles	11	10	10	10
Right-of-use assets	118	112	83	50
Other non current assets	191	224	268	302
Cash & bank balance	521	383	529	775
Current Investments	577	786	786	786
Trade receivables	518	681	796	888
Unbilled revenue	114	168	196	219
Other financial assets	59	20	24	26
Other current assets	316	395	462	515
Total Current Assets	2,105	2,433	2,794	3,210
Trade payables	132	210	245	273
Lease liability	28	32	32	32
OCL & provisions	474	419	490	546
Total Current Liabilities	634	660	766	851
Net Current Assets	1,471	1,773	2,028	2,359
Application of Funds	2,360	2,723	3,007	3,356

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Diluted EPS	11.6	16.3	17.7	20.1
Cash EPS	14.4	19.3	21.4	24.2
BV	78	92	102	115
DPS	3.5	4.0	8.1	8.1
Cash Per Share	19	14	19	28
Operating Ratios (%)				
EBITDA margin	14.9	15.5	15.7	16.0
PBT Margin	12.8	14.9	14.3	14.5
PAT Margin	9.0	11.2	10.4	10.6
Debtor days	53	60	60	60
Unbilled days	12	15	15	15
Creditor days	14	19	19	19
Return Ratios (%)				
RoE	14.7	17.9	17.6	17.8
RoCE	19.8	23.1	23.3	23.6
RoIC	35.8	36.3	39.1	42.0
Valuation Ratios (x)				
P/E	32.4	22.5	20.8	18.3
EV / EBITDA	17.5	14.5	12.1	10.3
EV / Net Sales	2.6	2.2	1.9	1.7
Market Cap / Sales	2.9	2.5	2.2	1.9
Price to Book Value	4.8	4.0	3.7	3.3
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.6	1.9	1.9	1.9
Quick Ratio	1.6	1.9	1.9	1.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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