



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score NEW

ESG RISK RATING
Updated Jul 08, 2023

Low Risk 19.17

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 11,064 cr
52-week high/low:	Rs. 412/250
NSE volume: (No of shares)	21.6 lakh
BSE code:	532400
NSE code:	BSOFT
Free float: (No of shares)	16.2 cr

Shareholding (%)

Promoters	41
FII	11
DII	24
Others	23

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.9	48.2	38.2	23.4
Relative to Sensex	9.4	39.0	26.5	4.7

Sharekhan Research, Bloomberg

IT & ITes	Sharekhan code: BSOFT		
Reco/View: Buy	↔	CMP: Rs. 402	Price Target: Rs. 470 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Revenue grew by 2.7% q-o-q in constant currency (CC) terms, beating our estimates of 0.9% q-o-q CC growth, driven by decent growth across manufacturing and BFSI verticals.
- EBITDA margin expanded 168 bps q-o-q to 15.3% on lower gross margins as well as lower SG&A. Management is optimistic about exiting FY24 with 16% EBITDA margin.
- Company signed TCV deals of \$146 million, down 49% q-o-q in-line with expectations after strong signings in Q3FY23 and Q4FY23. The management stated they would endeavour for \$200 million of signings every quarter.
- With consecutive strong quarters, we believe the turnaround for Birlasoft is on track. Hence, we maintain Buy on Birlasoft with revised price target (PT) of Rs 470. At the CMP the stock trades at 19.4/16.5x its FY24/25E EPS.

Birlasoft delivered a strong quarter in a challenging environment beating estimates on revenues, margins and profitability. Revenue in constant currency (CC) terms grew by 2.7% q-o-q, beating estimates of 0.9% q-o-q CC growth, driven by decent growth across Manufacturing and BFSI verticals. EBITDA margin expanded 168bps q-o-q to 15.3% on lower gross margins as well as lower SG&A. EBIT margin improved by 170 bps q-o-q to 13.6%, 120 bps above our expectations. Management is optimistic about exiting FY24 with 16% EBITDA margins. Net profit stood at Rs 137.5 crore, up 22.6% q-o-q beating our estimates of Rs.120.3 crore. The Company signed TCV deals of \$146 million, out of which new deal wins' TCV stood at \$80 million, down 29% y-o-y/ 30% q-o-q but were in-line post strong signings in Q3FY23 and Q4FY23 and also as deal closures were pushed from Q1 to Q2. Management stated they would endeavour for \$200 million of signings every quarter going forward. Company added 42 net additions during the quarter taking the total headcount to 12,235. LTM attrition moderated to 18.8% down 330 bps while Utilisation improved marginally to 84.9%, up 10 bps. Cash & cash equivalents stood at Rs. 1312.3 crore compared to Rs. 1127.8 crore in Q4FY2023. Despite the uncertain environment, Birlasoft delivered another strong quarter and is successfully steering clear of the overhang post-Invacare bankruptcy in Q3FY23. With consecutive strong quarters we believe the turnaround for Birlasoft is very much on track. Hence, we maintain Buy on Birlasoft with revised price target (PT) of Rs. 470. At CMP, the stock trades at 19.4/16.5x its FY24/25E EPS.

Key positives

- EBITDA margin expanded 168 bps q-o-q to 15.3%,
- LTM Attrition rate dipped 330 bps to 18.8% in Q1FY24 from 22.1% in Q4FY23

Key negatives

- Employee additions were muted at 42, taking the headcount to 12,235.
- No of active clients declined by 3 to 285 Clients.

Management Commentary

- Management expects financial services & manufacturing to do well while on service lines management believes they have great momentum in ERP and infrastructure while digital and data business remain strong.
- The management cited moderation in deal signings came after strong signings in Q3FY23 and Q4FY23 and also as deal closures were pushed from Q1FY24 to Q2FY24. They stated they would endeavour for \$200 million of signings every quarter going forward.

Revision in estimates: We have fine-tuned our earnings estimates for FY24/25 owing to factor Q1FY24 performance.

Our Call

Valuation: Good Quarter, Maintain Buy - Despite the uncertain environment Birlasoft delivered another strong quarter and is successfully steering clear of the overhang post the Invacare bankruptcy in Q3FY23. With consecutive strong quarters we believe the turnaround is on track. We expect strong ~10.5%/43% Sales and PAT CAGR respectively over FY23-25E. At the CMP the stock trades at 19.4/16.5x its FY24/25E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. Contagion effect of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Valuation	Rs cr			
Particulars	FY22	FY23	FY24E	FY25E
Revenue	4,130.4	4,794.8	5,207.4	5,843.2
OPM (%)	15.5	14.0	15.5	16.0
Adjusted PAT	457.9	323.7	573.9	660.2
% YoY growth	42.7	-29.3	77.3	15.0
Adjusted EPS (Rs)	16.4	11.9	20.8	24.3
P/E (x)	24.5	33.7	19.4	16.5
P/B (x)	3.1	3.2	2.8	2.4
EV/EBIDTA (x)	10.7	10.3	8.3	6.9
RoNW (%)	19.2	12.9	21.6	21.4
RoCE (%)	21.8	22.0	26.0	26.2

Source: Company; Sharekhan estimates

Key result highlights from earnings call

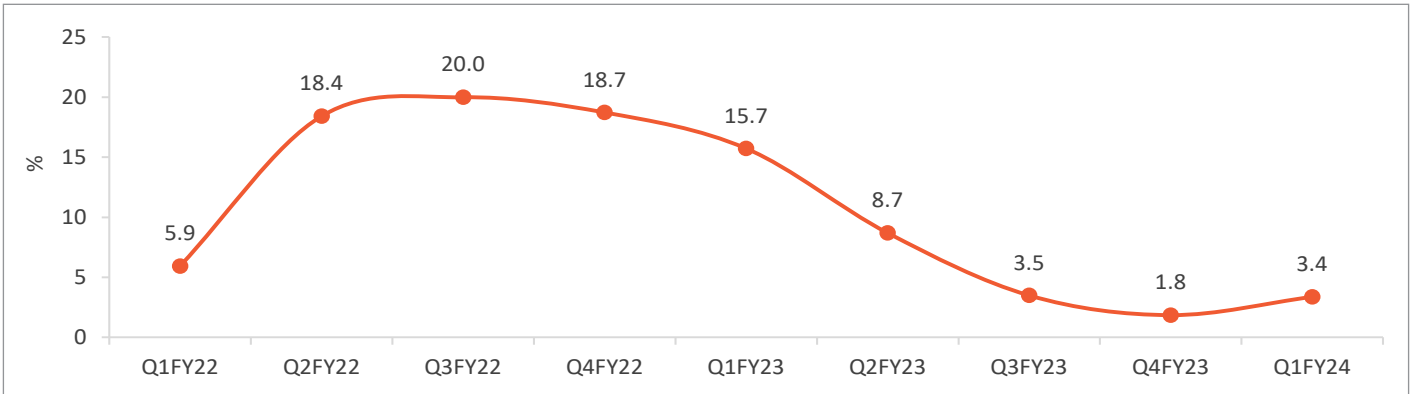
- ◆ **Strong Q1:** CC revenue grew by 2.7% q-o-q, above our estimates of 0.9% q-o-q. Reported US Dollar revenue grew by 3.0% q-o-q to \$153.6 million. Growth during Q1FY24 was driven by BFSI and Manufacturing among verticals up 4.0%/4.6% q-o-q respectively, and by both emerging tech and enterprise solutions including Infrastructure and ERP, among service lines. EBITDA margin expanded 168bps q-o-q to 15.3%, on lower gross margins as well as lower SG&A. EBIT margin improved by 170 bps q-o-q to 13.6%, 120 bps above our expectations. Net profit stood Rs. 137.5 crore, up 22.6% q-o-q beating our estimates of 120.3 crore.
- ◆ **Deal signings:** Company signed TCW deals of \$146 million, down 49% q-o-q/ 21% y-o-y. For Q1FY24, New deal wins TCW was \$80 million, down 30% q-o-q /29% y-o-y while Renewal deal wins stood at \$66 million, down 62% q-o-q/10% y-o-y.
- ◆ **Performance across verticals, geographies and Service lines:** In terms of verticals Manufacturing, BFSI and Lifesciences grew 4.6%/4.0% and 2.6% q-o-q respectively while Energy & Utilities declined 1.1% q-o-q. In terms of geographies, Europe, RoW and North America grew by 15.6%/8.4 and 1.4 q-o-q respectively. Among service lines ICTS, ERP and Digital Cloud grew 13.9%/4.9/2.4 q-o-q while Data & Analytics was down 1.4% q-o-q.
- ◆ **EBITDA margins:** EBITDA margins expanded by 168 bps q-o-q to 15.3%, on lower gross margins as well as lower SG&A. EBIT margin improved by 170 bps q-o-q to 13.6%, 120 bps above our expectations. Management is optimistic about exiting FY24 with 16% EBITDA margin.
- ◆ **Healthy growth in top accounts:** Revenues from Top 5, Top 10 and Top 20 clients in Q1FY24 grew q-o-q by 4.6%, 5.6% and 3.0%, respectively. The number of active client additions declined by 3 to 285 clients.
- ◆ **Attrition rate slows:** Attrition rate dipped 330 bps to 18.8% in Q1FY24 from 22.1% in Q4FY23. Utilisation improved marginally by 10 bps sequentially to 84.9%. Net employee additions during the quarter was 42, taking the headcount to 12,235. The management intends to give salary hikes starting 1st September, which may impact performance for that quarter. The company to continue to mitigate costs that come after it.
- ◆ **Cash balance:** Cash & cash equivalents came at Rs. 1312.3 crore versus Rs. 1127.8 crore in Q4FY23. DSO remained stable at 53 days.
- ◆ **Mergers & Acquisitions:** The company would consider M&A to expand geography and plug capability and not for revenue aggregation.

Results

	Rs cr				
Particulars	Q1FY24	Q1FY23	Q4FY23	% YoY	% QoQ
Revenues (\$ mn)	153.6	148.6	149.1	3.4	3.0
Net sales	1,262.8	1,154.4	1,226.4	9.4	3.0
Employee benefit expenses	742.8	657.9	729.4	12.9	1.8
Gross Profit	520.0	496.6	497.0	4.7	4.6
Operating expenses	326.8	326.8	330.0	0.0	-1.0
EBITDA	193.1	169.8	167.0	13.7	15.7
Depreciation	21.4	19.6	21.0	8.8	2.0
EBIT	171.7	150.2	146.0	14.4	17.6
Other income	14.1	15.5	(2.3)	-9.2	-708.8
Finance cost	4.2	3.3	4.0	30.0	6.5
PBT	181.6	162.4	139.7	11.8	30.0
Tax provision	44.0	41.7	27.6	5.7	59.8
Net profit	137.5	120.7	112.2	13.9	22.6
EPS (Rs)	4.9	4.3	4.0	15.8	22.4
Margin (%)					
EBITDA	15.3	14.7	13.6	58	168
EBIT	13.6	13.0	11.9	59	170
NPM	10.9	10.5	9.1	43	175

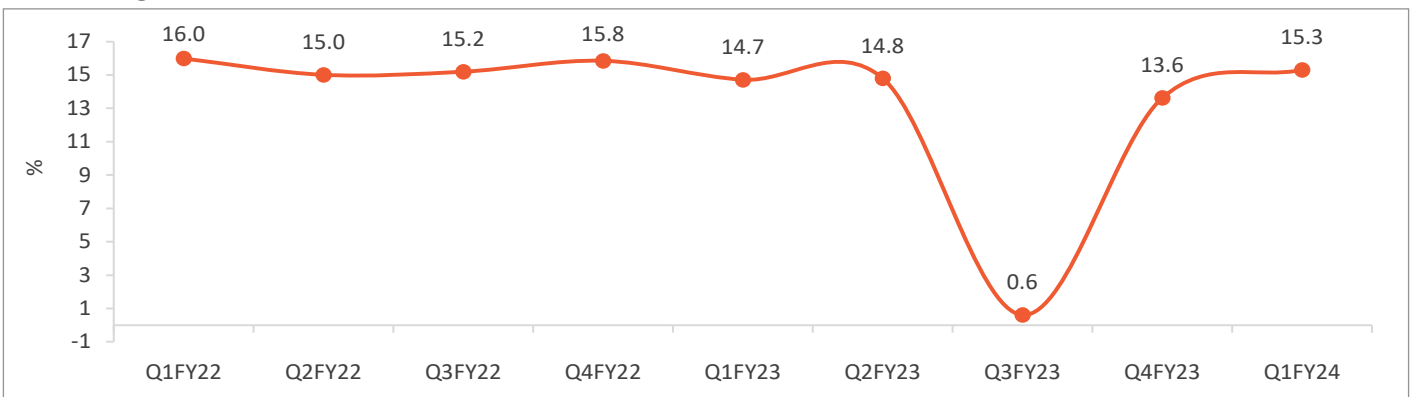
Source: Company, Sharekhan Research

USD revenue growth trend (y-o-y)



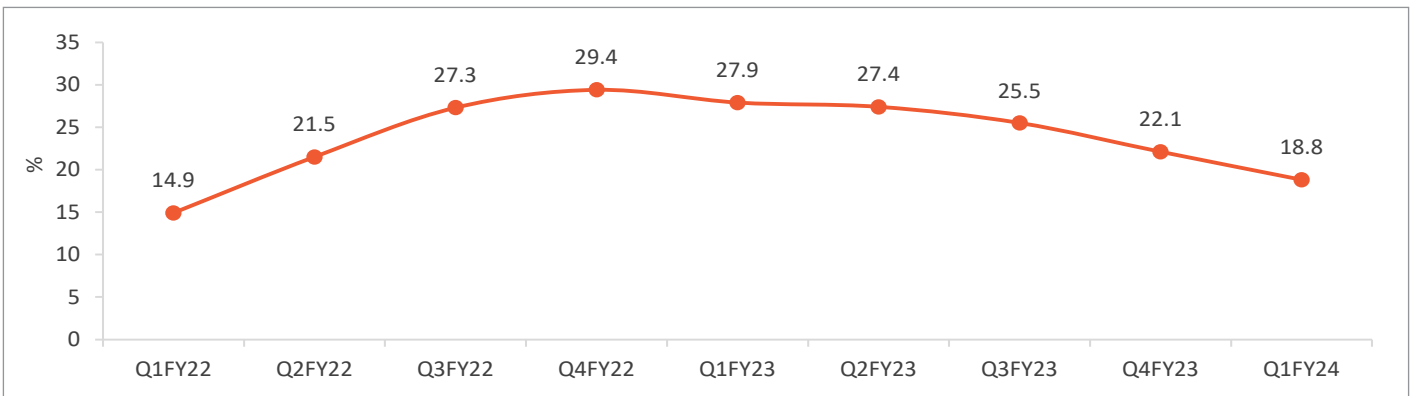
Source: Company, Sharekhan Research

EBITDA margin trend



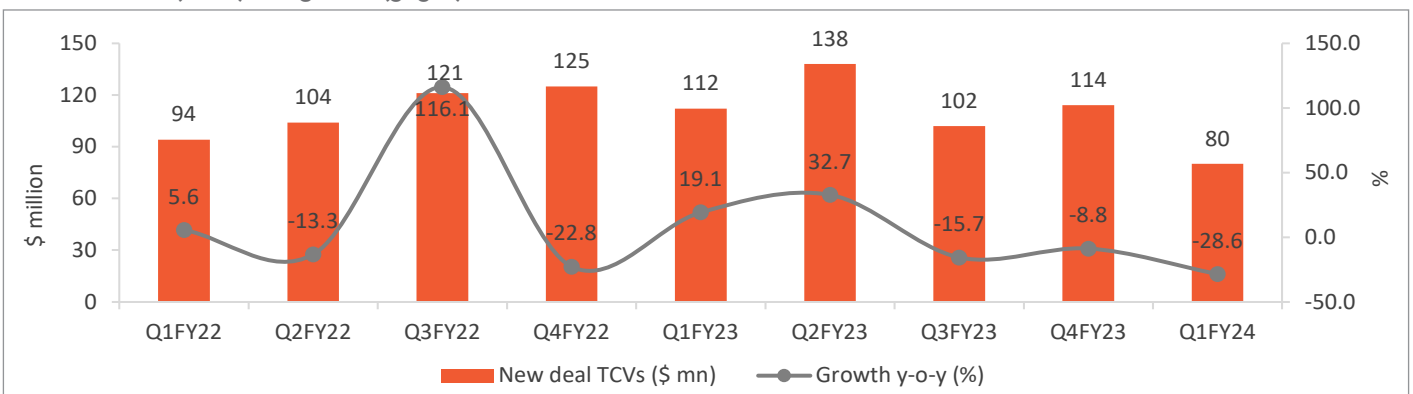
Source: Company, Sharekhan Research

Attrition trend



Source: Company, Sharekhan Research

New deal TCVs (\$ mn) and growth (yoy %)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

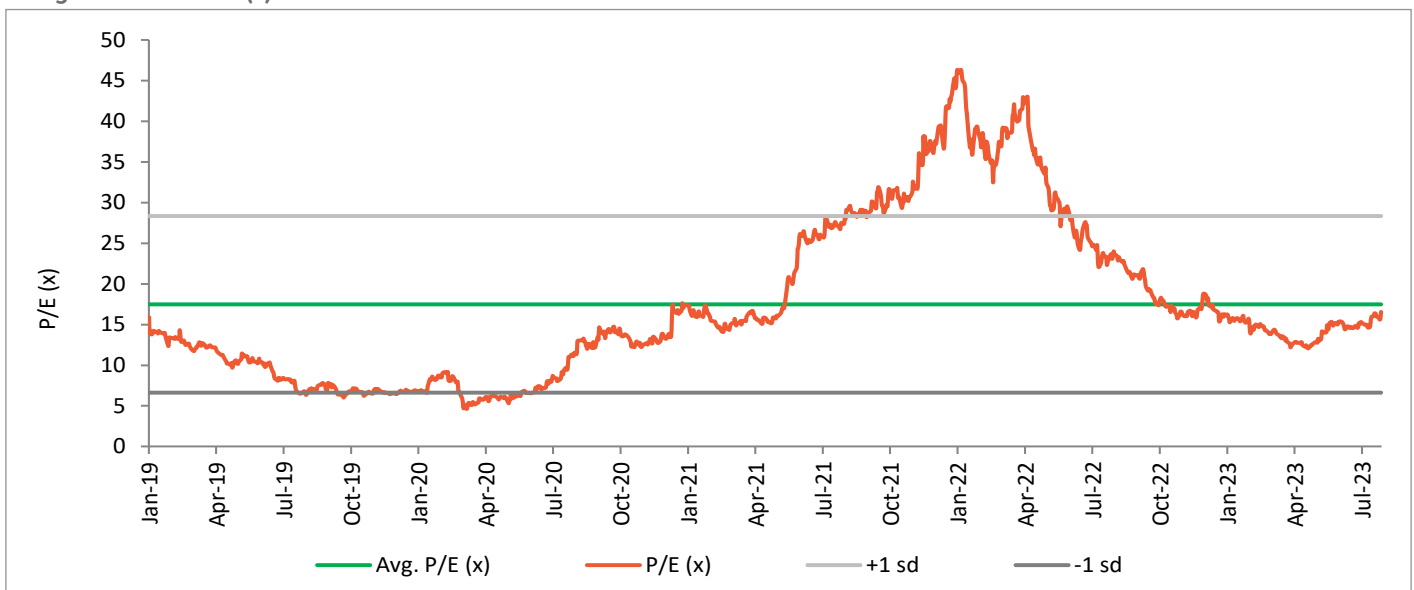
■ Company outlook - Moving in the right direction

The management sees strong traction for virtual engagement, Cloud adoption, and digital transformation work. We believe the company's focus on deepening relationship with existing large accounts, vertical sales structure, leveraging of core and peripheral services, ramp-up of deal wins, and defined incentives of cross-selling/up-selling would drive revenue growth. We believe revenue growth would accelerate in FY2023 led by strong growth in enterprise solutions, a robust deal intake, healthy deal pipeline, and broad-based demand across verticals. Further, the management aspires to maintain its EBITDA margin of above 15% in the subsequent quarters despite supply-side issues and investments for capability enhancements.

■ Valuation - Good Quarter, Maintain Buy

Despite the uncertain environment Birlasoft delivered another strong quarter and is successfully steering clear of the overhang post-Invacare bankruptcy in Q3FY23. With consecutive strong quarters we believe the turnaround is on track. We expect strong ~10.5%/43% Sales and PAT CAGR respectively over FY23-25E. At the CMP the stock trades at 19.4/16.5x its FY24/25E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Birlasoft (an unlisted company) merged and amalgamated with KPIT Technologies Limited (merger) and the engineering business of KPIT Technologies Limited, which was on a going concern basis, demerged and transferred to an independent entity. Post restructuring, Birlasoft became a \$450 million-475 million organisation with a mix of digital and ERP revenue. Birlasoft had strengths primarily on non-ERP digital businesses, while KPIT IT services possessed core strengths on the enterprise software solutions and capabilities in digital transformation services.

Investment theme

Post the merger in January 2019, the new combined entity had very complementary skill sets from both the businesses. Focus on deepening relationship with existing large accounts, verticalised sales structure, leveraging core and peripheral services, and defined incentives of cross-sell/up-sell are expected to drive the company's revenue growth going ahead. Further, Birlasoft has been signing a steady mix of net-new deals and renewal of deals, which indicate the company's position in the enterprise digital space. Management expects gradual improvement in operating profitability to continue, given its cost-optimisation initiatives and reduction in discretionary spends.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements. 2) Contagion effect of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Additional Data

Key management personnel

Amita Birla	Chairman and non-executive Director
Angan Guha	CEO and MD
Shreeranganath Kulkarni	Chief Delivery Officer (CDO)
Roop Singh	CEO Americas
Arun Dinakar Rao	Chief People Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management Co Ltd/India	5.52
2	L&T Mutual Fund Trustee Ltd/India	3.84
3	Aditya Birla Sun Life Asset Manage	3.22
4	ICICI Prudential Life Insurance Co	3.12
5	ICICI Prudential Asset Management	2.36
6	Vanguard Group Inc/The	1.89
7	Dimensional Fund Advisors LP	1.47
8	HSBC Asset Management India Pvt Lt	1.21
9	Tata Asset Management Pvt Ltd	1.14
10	Mahindra Manulife Investment Manag	1.12

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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