



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✓	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✓	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✗
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Aug 08, 2023

19.17

Low Risk

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

Source: Morningstar

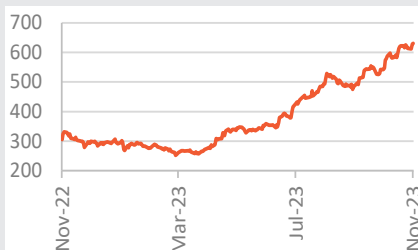
Company details

Market cap:	Rs. 17,364 cr
52-week high/low:	Rs. 638/250
NSE volume: (No of shares)	26.5 lakh
BSE code:	532400
NSE code:	BSOFT
Free float: (No of shares)	16.3 cr

Shareholding (%)

Promoters	41
FII	18
DII	22
Others	19

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.2	27.8	87.2	106.5
Relative to Sensex	11.7	24.9	80.9	100.3

Sharekhan Research, Bloomberg

Birlasoft Ltd

Leadership refresh ushering changes in the right direction

IT & ITeS

Sharekhan code: BSOFT

Reco/View: Buy



Upgrade

CMP: Rs. 630



Maintain

Price Target: Rs. 750



Downgrade

Summary

- We maintain Buy on Birlasoft with a revised PT of Rs. 750 (increase in PT reflects revision in estimates and multiple rerating due to improving earnings growth trajectory, leadership refresh and relative earning outperformance). At CMP, stock trades at 24.5x/20.9x its FY25E/26E EPS.
- Key hirings under the new CEO's is almost complete and the company is poised for a higher growth trajectory once macro headwinds subside.
- The company is investing in emerging tech capabilities such as Generative AI, RPA and Machine learning to stay agile while increasing and diversifying offerings.
- Efforts to drive sales, mine accounts, rationalise account tail, and other management strategies by new leadership team are likely to result in strong deal signings and augment healthy order pipeline thus supporting revenue visibility in FY25.

We met Birlasoft's management, which is undergoing leadership refresh, to understand its outlook and growth plans. With the new CEO driving key senior leadership hirings along with well-directed strategic initiatives, the management endeavors to bring about sharper focus and culture with higher customer centricity and sales orientation not confined to new logo additions but extending to quality engagements and offerings that combine domain knowledge with technological capabilities. Under the new management, the company is investing in capabilities in emerging technologies, aligning verticals and service lines to achieve quality engagements through diversified offerings. The restructuring has also led to an improvement in margins in recent quarters, with the EBIT margin up 110 bps y-o-y to 14.2% in Q2FY24. Additionally, the company has revamped service lines to focus on Data & Analytics, Digital & Cloud, ERP, and Infrastructure while also investing in emerging technologies such as Generative AI, Salesforce, AWS, and Pharmacovigilance. The company's healthy order book is expected to support revenue visibility in FY25, with notable deal wins including a large deal with a Fortune 500 corporation in North America. Efforts towards driving Sales, account mining, rationalizing account tail, and other management strategies with the new leadership team are likely to result in strong deal signings and augment the healthy order pipeline. Hence, we maintain Buy on Birlasoft with revised price target (PT) of Rs. 750 (increase in PT reflects revision in estimates and multiple rerating due to improving earnings growth trajectory, leadership refresh and relative earnings outperformance). At CMP, the stock trades at 24.5/20.9x its FY25/26E EPS.

- Leadership refresh:** With the recent appointment of the new chief Operating Officer (COO), the key senior leadership hirings carried out under the initiative of the new CEO Mr Angan Guha is almost complete and the company is now geared for a higher growth trajectory once macro headwinds recede. Under the new CEO, there is incremental progress in the right direction as the management endeavors to bring about sharper focus and culture with higher customer centricity and Sales orientation not confined to new logo additions but extending to quality engagements and offerings that combine domain knowledge with tech capabilities. The new CEO has embarked on an execution-focused strategy, which is evident from consecutive quarters of strong revenue growth despite the persisting macro uncertainty and headwinds. In FY23, manufacturing contributed 47% of revenues, followed by Life Sciences (20%), BFSI (19%), and E&U (14%). The company's current contribution from the BFSI space is relatively small compared to larger peers in the industry however managerial efforts are underway to achieve greater contribution from the BFSI and Life sciences going ahead while Manufacturing is expected to deliver steady growth.
- Investment in capabilities in emerging technologies:** The company, under its new management is more focused on aligning verticals and service lines with intent of pursuing quality engagements and is steadily investing in capabilities to stay agile while increasing and diversifying its offerings. The new management is restructuring the company's operations by industry verticals to achieve cost savings as reflected in the improving margins in the last couple of quarters following the Invacare bankruptcy (EBIT margin up 110 bps y-o-y to 14.2% in Q2FY24). The company had revamped the services lines in Q1FY24 to Data & Analytics, Digital & Cloud, ERP, and Infrastructure. Birlasoft has also been investing in capabilities in Emerging Tech such as Generative AI, RPA and Machine learning. It has also been scaling up its existing capabilities in Microsoft, AWS, GCP and Cloud platforms (Salesforce, Service Now) and further enhancing their strong ERP capability by reinforcing the leadership and building up cloud competencies in that space.
- Healthy order book to support revenue visibility in FY25:** Although the deal cycle continues to be long, the company's deal pipeline has expanded, and it has been witnessing specific instances of small transformational deal conversations. During H1FY24 TCV deal wins stood at \$417 million, up 18% y-o-y basis which includes a large deal bagged by the company in Q2FY24 with a TCV of \$100 million+ over five years from a Fortune 500 corporation in North America. LTM deal wins TCV stood at \$934 million, up ~24 y-o-y. The company's efforts towards driving Sales with sales incentives linked to both revenue and margin, account mining, rationalizing of account tail is likely to result in strong deal signings and augment the healthy order pipeline. The company's deal win TCV for 9M Q4FY23-Q2FY24 was 21% higher than in preceding 9M Q1FY23-Q3FY23. Deal win TCV for FY24 could be higher than previous year as management efforts and strategies with new leadership team would begin to yield results. Further, the above \$100 million+ large deal has a transition period of 6 months with revenue uptake from April onwards thus adding to the revenue visibility for FY25.

Our Call

Valuation: Maintain Buy with revised PT of Rs 750: We believe the company will benefit from leadership revamp and strategic managerial efforts with focus on execution along with improvement in operational efficiencies. Efforts towards driving sales, account mining, rationalising account tail, and other management strategies with the new leadership team are likely to result in strong deal signings and augment the healthy order pipeline. We expect strong ~12%/37% Sales and PAT CAGR respectively over FY23-26E. Hence, we maintain Buy on Birlasoft with a revised price target (PT) of Rs. 750 (increase in PT reflects revision in estimates and multiple rerating due to improving earnings growth trajectory, leadership refresh and relative earning outperformance). At CMP, the stock trades at 24.5/20.9x its FY25/26E 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

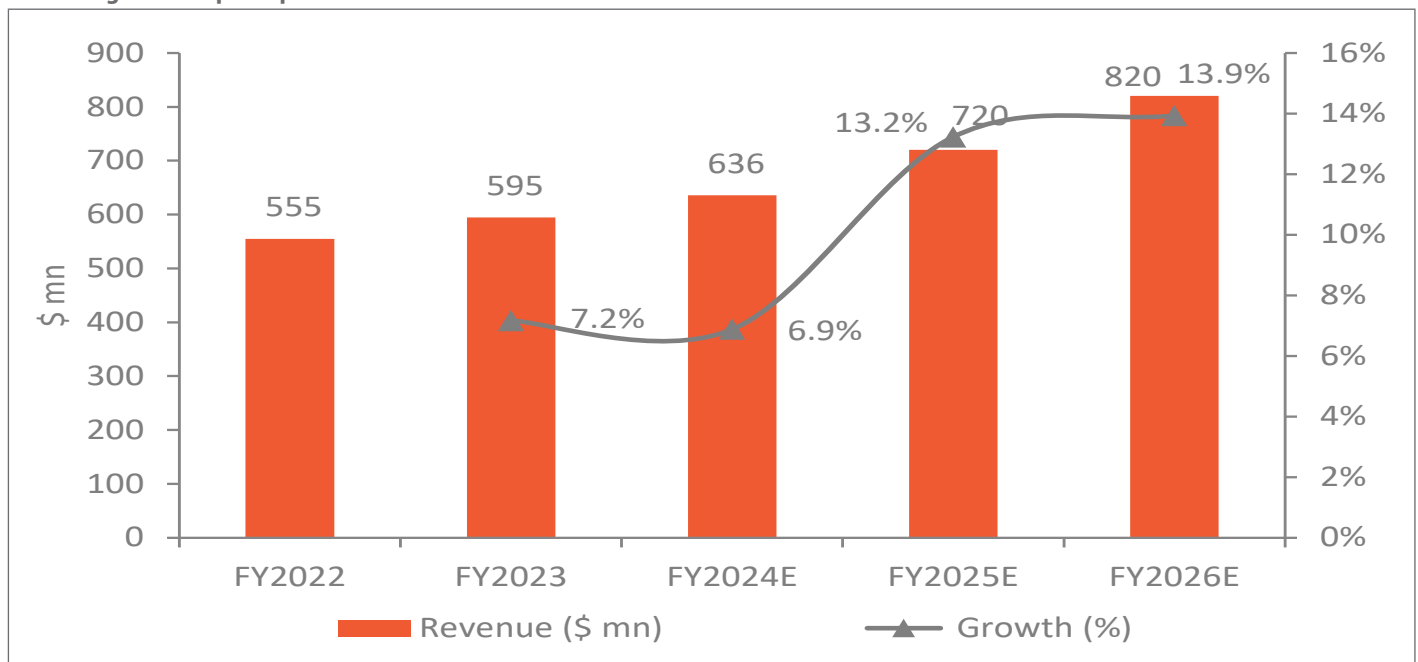
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,130.4	4,794.8	5,261.3	5,939.7	6,767.3
OPM (%)	15.5	14.0	15.6	16.7	17.0
Adjusted PAT	457.9	323.7	576.2	707.7	831.6
% YoY growth	42.7	(29.3)	78.0	22.8	17.5
Adjusted EPS (Rs. .)	16.4	11.9	20.9	25.7	30.2
P/E (x)	38.4	52.9	30.2	24.5	20.9
P/B (x)	3.1	3.2	2.8	2.4	2.0
EV/EBIDTA (x)	10.7	10.3	8.2	6.4	5.2
RoNW (%)	19.2	12.9	21.7	22.8	22.8
RoCE (%)	21.8	22.0	26.3	27.7	27.6

Source: Company; Sharekhan estimates

Management meet Key Takeaways

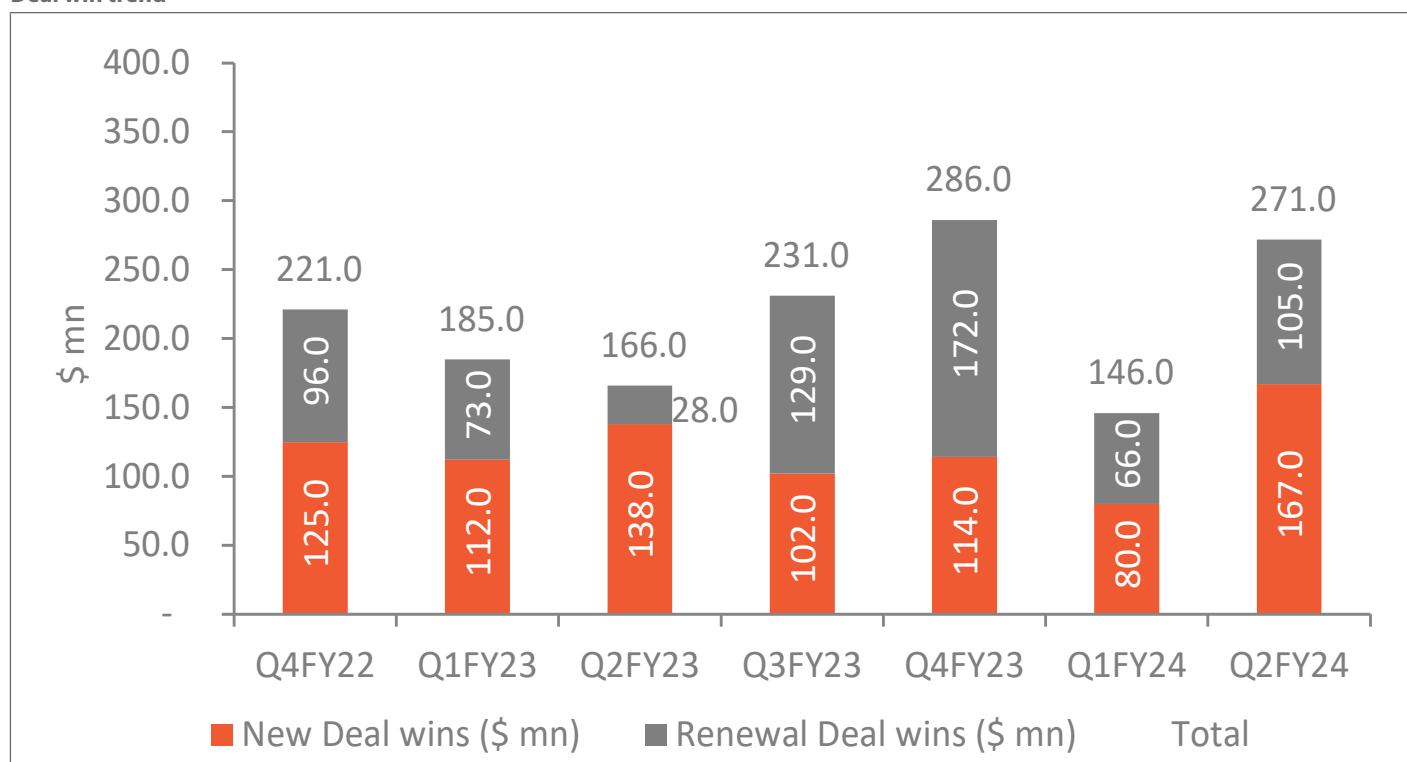
- ◆ Senior leadership hiring is almost complete with latest hiring of new chief Operating Officer (COO) Mr Selvakumaran Mannappan (ex-Cognizant Technology Solutions).
- ◆ There can be a higher thrust on BFSI vertical going ahead as the New CEO Mr Angan Guha in his previous organization had served as the Global Head of BFSI where he had honed deep industry and domain expertise.
- ◆ The company expects key Manufacturing vertical to grow at steady rate while BFSI and Lifesciences vertical contribution to revenue mix is expected to improve over the next couple of years.
- ◆ Currently, in the BFSI vertical, the pecking order (largest to smallest contributor) Insurance, financial services and banking. Banking is expected to pick up next year.
- ◆ Although the deal cycle continues to be long, the company's deal pipeline has expanded, and it has been witnessing specific instances of small transformational deal conversations.
- ◆ The company's deal win TCV for 9M Q4FY23-Q2FY24 was 21% higher than in preceding 9M Q1FY23-Q3FY23. Deal win TCVs for FY24 could be higher than previous year as management efforts and strategies with new leadership team would begin to yield results.
- ◆ About 500 employees have undergone generative AI training which would be extended to all the employees.
- ◆ Hiring headcount to grow in FY24. Fresher hiring in line with peers
- ◆ Management endeavors to bring about sharper focus and culture with higher customer centricity and Sales orientation not confined to new logo additions but extending to quality engagements and offerings that combine domain knowledge with tech capabilities.
- ◆ Birlasoft has also been investing in capabilities in Emerging Tech such as Generative AI, RPA and Machine learning. It has also been scaling up its existing capabilities in Microsoft, AWS, GCP and Cloud platforms (Salesforce, Service Now)

Revenue growth to pick up in FY25E



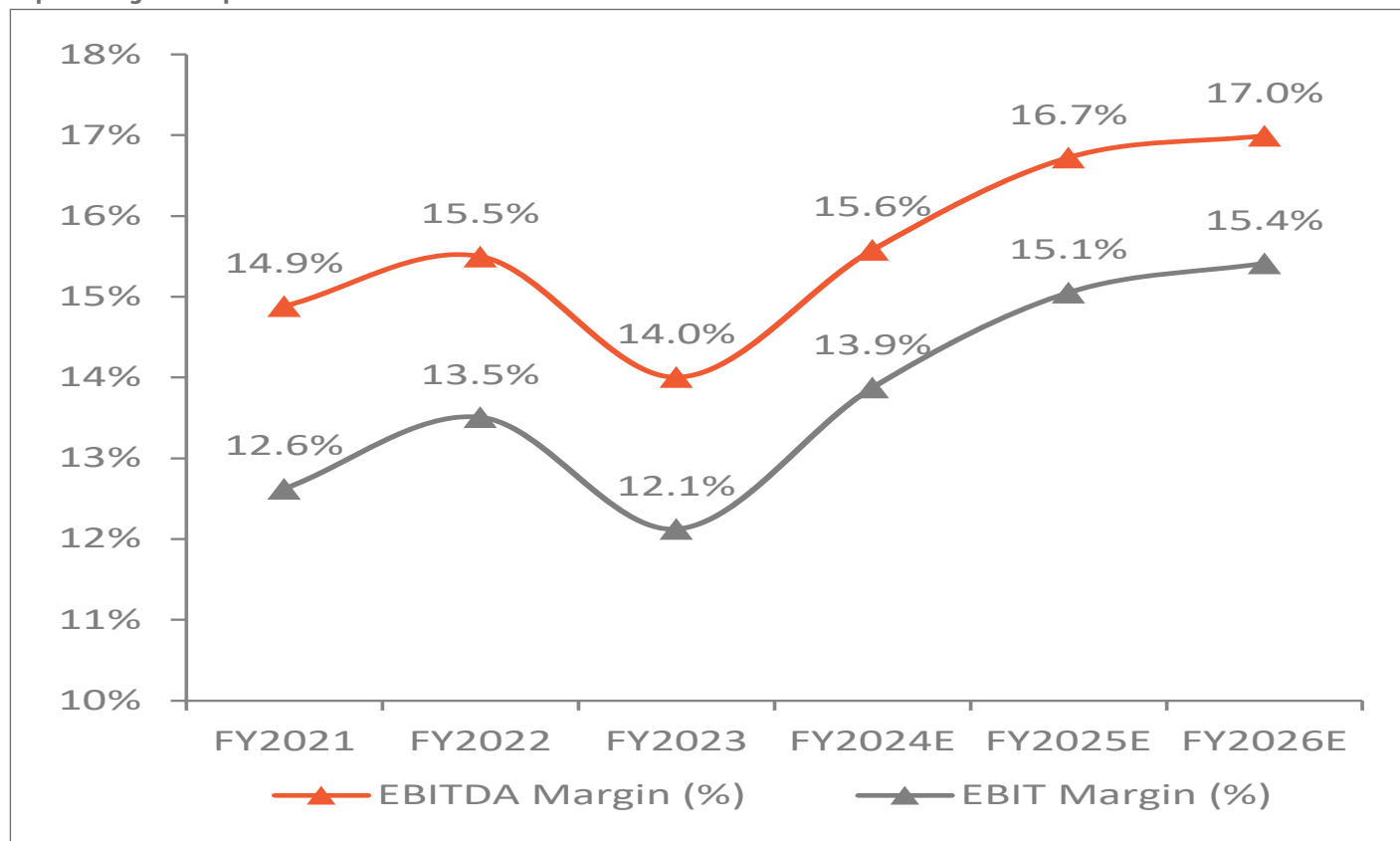
Source: Company; Sharekhan Research

Deal win trend



Source: Company; Sharekhan Research

Expect margin to improve over FY2023-FY2026E



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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.

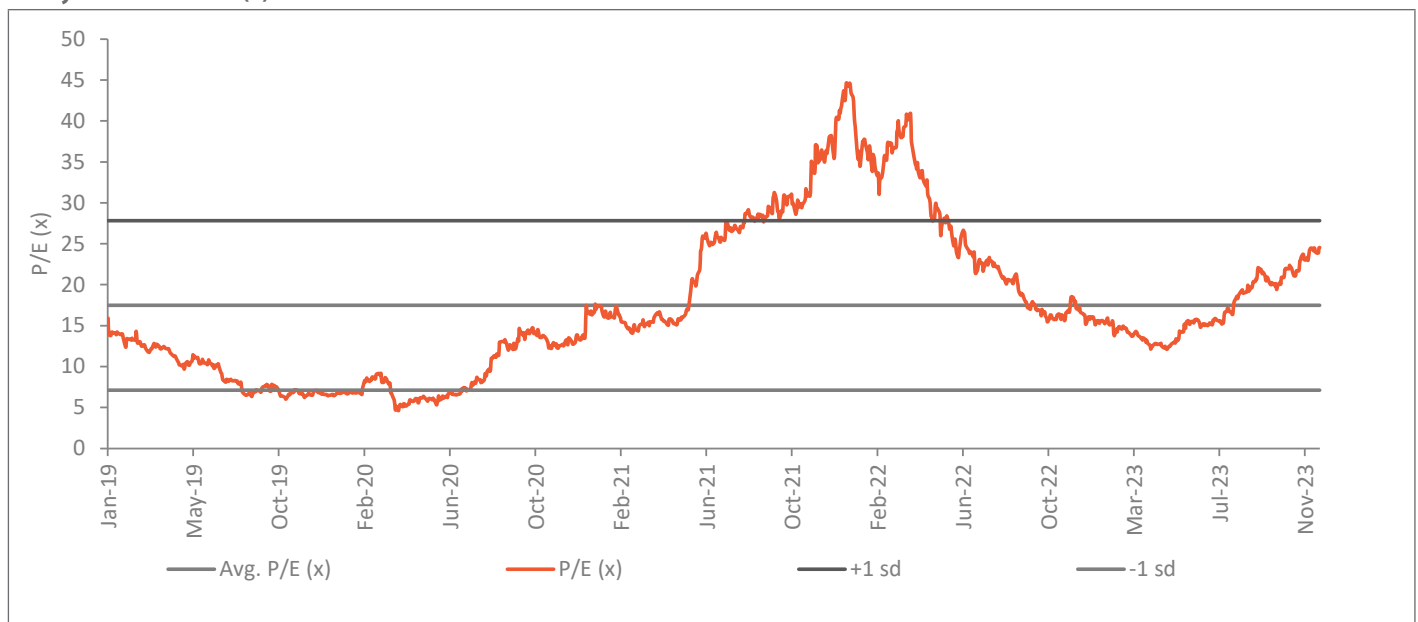
■ Company Outlook – Moving in the right direction

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 FY25 led by strong growth in enterprise solutions, a robust deal intake, healthy deal pipeline, and broad-based demand across verticals.

■ Valuation – Maintain Buy with revised PT of Rs 750

We believe the company will benefit from a leadership revamp and strategic managerial efforts with focus on execution along with improvement in operational efficiencies. Efforts towards driving sales, account mining, rationalising account tail, and other management strategies with the new leadership team are likely to result in strong deal signings and augment the healthy order pipeline. We expect strong ~12%/37% Sales and PAT CAGR respectively over FY23-26E. Hence, we maintain Buy on Birlasoft with a revised price target (PT) of Rs. 750 (increase in PT reflects revision in estimates and multiple rerating due to improving earnings growth trajectory, leadership refresh and relative earning outperformance). At CMP, the stock trades at 24.5/20.9x its FY25/26E EPS.

One-year forward P/E (x) band



Source: Company; Sharekhan Research

About the 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
Kamini Shah	CFO
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	5.7
2	BlackRock Inc	5.0
3	L&T Mutual Fund Trustee Ltd	3.8
4	Vanguard Group Inc	2.2
5	Aditya Birla Sun Life Asset Management	2.0
6	Central India Industries Ltd	1.9
7	Dimensional Fund Advisors LP	1.3
8	ICICI Prudential Asset Management	1.2
9	HSBC Asset Management India Pvt Lt	1.2
10	Tata Asset Management Pvt Ltd	1.1

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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