



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	✗	↔	✗

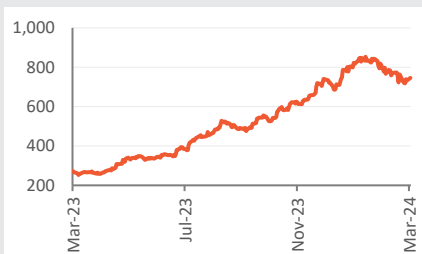
Company details

Market cap:	Rs. 20,549 cr
52-week high/low:	Rs. 862 / 250
NSE volume: (No of shares)	21.7 lakh
BSE code:	532400
NSE code:	BSOFT
Free float: (No of shares)	16.3 cr

Shareholding (%)

Promoters	41
FII	21
DII	20
Others	18

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.3	1.5	54.1	181.6
Relative to Sensex	-3.9	-0.1	44.2	155.6

Sharekhan Research, Bloomberg

Birlasoft Ltd

Well-placed to deliver top quartile performance

IT & ITes

Sharekhan code: BSOFT

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 745

Price Target: Rs. 950



Downgrade

Summary

- We maintain Buy on Birlasoft with an unchanged PT of Rs. 950, as it remains well placed to deliver top-quartile performance guided by revamped management and aided by robust order book and deal ramp-ups. At CMP, the stock trades at 28.7x/22.8x its FY25/26E EPS.
- The company under the revamped leadership has been consistently delivering strong constant revenue growth of 1.9-3.1% q-o-q, with EBITDA margin uptick of 70bps during 9MFY24 despite macro-overhang.
- The company is investing in emerging tech capabilities to be future ready and agile while increasing and diversifying its offerings.
- Focus on sales, increasing cost takeout deals, account mining, and rationalising of account tail are likely to result in strong deal signings and augment the robust order book providing strong revenue visibility.

We met the management of Birlasoft to get an update on the company's outlook and growth plans. The company is witnessing a decent flow of cost take-out deals, which should aid in the recovery of new deal wins although long-term transformational deals continue to be on hold. Focus on sales and quality accounts, account mining, and rationalising of account tail are likely to result in strong deal signings and augment the robust order book. With the senior leadership hirings complete, management is now focusing on investing in capabilities to be future ready and agile. The company is investing in emerging technologies such as Generative AI along with scaling up of its existing capabilities in Microsoft Azure, AWS, GCP, and Cloud platforms (Salesforce, ServiceNow). The company under the revamped leadership has been consistently delivering strong constant revenue growth of 1.9-3.1% with a margin uptick of 70bps during 9MFY24 despite the macro-overhang. The company is aiming for top-quartile performance for FY25 with stable EBITDA margin of 15.5-16.5%. The recent ~14% correction from the 52-week high provides a good investment opportunity and entry point in the company whose financials are steadily improving resulting in earnings outperformance. We maintain Buy on Birlasoft with an unchanged PT of Rs. 950, as it remains well placed to deliver top-quartile performance guided by revamped management and aided by robust order book and deal ramp-ups. At CMP, the stock trades at 28.7x/22.8x its FY25E/26E EPS.

- Cost take-out deals and account mining to aid in deal win TCV recovery.** The company's new deal win TCV has witnessed moderation in Q3FY24. The new deal win TCV for 9MFY24 was down 3.1% compared to 9MFY23. Although long-term transformational deals are still on hold, the company is witnessing a decent flow of cost take-out deals, which should aid in recovery of new deal wins after the moderation seen in the seasonally weak Q3FY24. Further, the company's efforts towards driving sales with sales incentives linked to both revenue and margin, focus on quality accounts, account mining, and rationalising of account tail are likely to result in strong deal signings and augment the healthy order book.
- Investment in capabilities to be future-ready and agile:** The company has completed the senior hiring with appointment of hiring of new Chief Operating Officer (COO), Selvakumaran Mannappan, and Chief Operating Officer (CEO), Manjunath Kygonhally, for ROW region. With the senior hiring complete, the company is looking at investing in capabilities to be future ready and agile along with lateral and fresher additions. During 9MFY24 headcount has gradually scaled up with 163 additions in comparison to the reduction in headcount by most of its peers. The generative AI training has now been extended to all the employees after training the initial 500 employees. The company has also been scaling up its existing capabilities in Microsoft Azure, AWS, GCP and Cloud platforms (Salesforce and ServiceNow).
- Top-quartile growth with stable margin in focus:** The company under the revamped leadership has been consistently delivering strong constant revenue growth of 1.9-3.1% with a margin uptick of 70bps during 9MFY24 despite macro-overhang. The company is aiming for top-quartile performance for FY25 with stable EBITDA margin of 15.5-16.5%. The company has adequate margin levers such as pyramid rationalisation, onsite offshore mix, and automation to improve margins. The 9MFY24 order book remains healthy at \$635 million, up 9% y-o-y, while LTM deal win TCV stands at \$921 million, up 14% y-o-y, providing decent revenue visibility. The recent ~14% correction from the 52-week high provides a good investment opportunity and entry point in the company whose financials are steadily improving resulting in earnings outperformance.

Our Call

Valuation – Maintain BUY with unchanged PT of Rs. 950: Birlasoft has consistently delivered strong earnings outperformance under the revamped leadership for the last several quarters. We believe the company's efforts towards driving sales, account mining, and rationalising account tail are likely to result in strong deal signings and augment the healthy order book. We expect strong ~15%/23% Sales and PAT CAGR, respectively, over FY24-26E. Hence, we maintain BUY on Birlasoft with an unchanged price target (PT) of Rs. 950, as it remains well placed to deliver top-quartile performance, aided by robust order book and deal ramp-ups. At CMP, the stock trades at 28.7x/22.8x its FY25/26E EPS.

Key Risks

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

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,130.4	4,794.8	5,300.3	6,106.3	7,039.4
OPM (%)	15.5	14.0	15.7	16.4	17.5
Adjusted PAT	457.9	323.7	598.1	716.6	900.8
YoY growth (%)	42.7	(29.3)	84.8	19.8	25.7
Adjusted EPS (Rs.)	16.4	11.9	21.7	26.0	32.7
P/E (x)	45.4	62.5	34.4	28.7	22.8
P/B (x)	3.1	3.2	2.8	2.3	2.0
EV/EBIDTA (x)	10.7	10.3	8.1	6.4	4.9
RoNW (%)	19.2	12.9	22.5	22.9	24.3
RoCE (%)	21.8	22.0	26.8	27.7	29.4

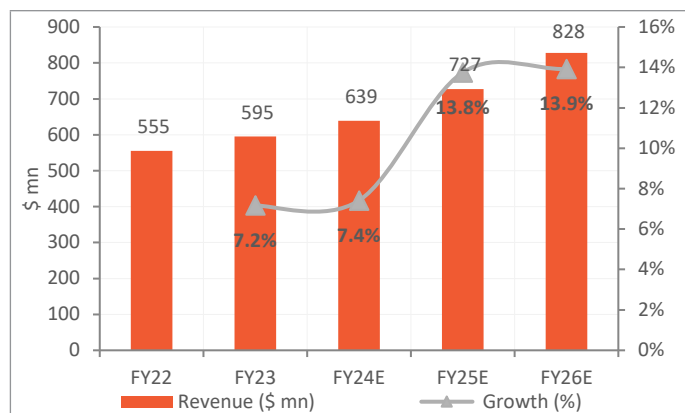
Source: Company; Sharekhan estimates

Management meet key takeaways

- ◆ Demand environment remains unchanged. Long-term transformational deals are still on hold. The company is witnessing largely cost take-out deals. Currently, most deals are centered around cloud.
- ◆ The company is witnessing traction in infra, ERP, and cloud.
- ◆ Although Q4 is expected to be better than Q3, management does not expect Q4 to reflect sharper growth on account of reversal of furloughs since the furlough impact in Q3 had been compensated by couple of one-time programs
- ◆ Senior leadership hiring is complete with the hiring of the new COO, Selvakumaran Mannappan, and CEO for RoW region, Manjunath Kygonhally, from Cognizant Technology Solutions.
- ◆ The new CEO, Angan Guha aims to expand the company's BFSI footprint gradually over the coming years. BFSI vertical continues to witness softness owing to macro-overhang. Banking is expected to pick up by H2FY2025 owing to mitigating headwinds
- ◆ The company is aiming for top-quartile growth for FY25 with stable margins in the range of 15.5-16.5%.
- ◆ Deal win TCV has moderated due to the macro-overhang. However, deal win momentum is likely to pick up in Q4 owing to higher cost take-out deals and account mining.
- ◆ The generative AI training has been extended to all the employees.
- ◆ Headcount additions are likely to improve in FY25 as the company will be investing in capabilities to be future ready and agile. Lateral and fresher hiring are likely to register uptick.
- ◆ 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 Azure, AWS, GCP, and Cloud platforms (salesforce and service now).
- ◆ Management is focused on sales, delivery, and execution. The focus is not confined to new logo additions alone but quality engagements and offerings that combine domain knowledge with tech capabilities.

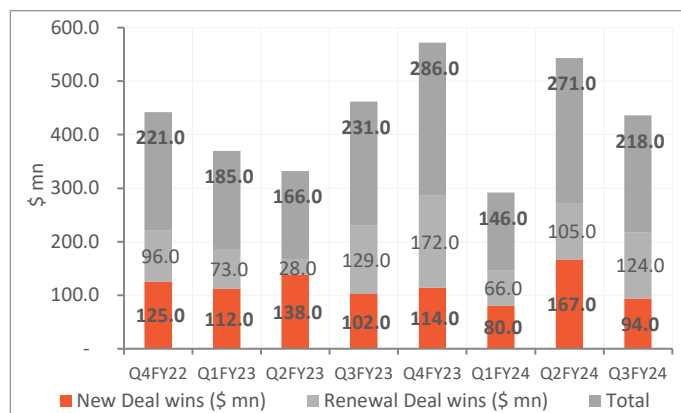
Financials in charts

Revenue growth to pick up in FY2025E



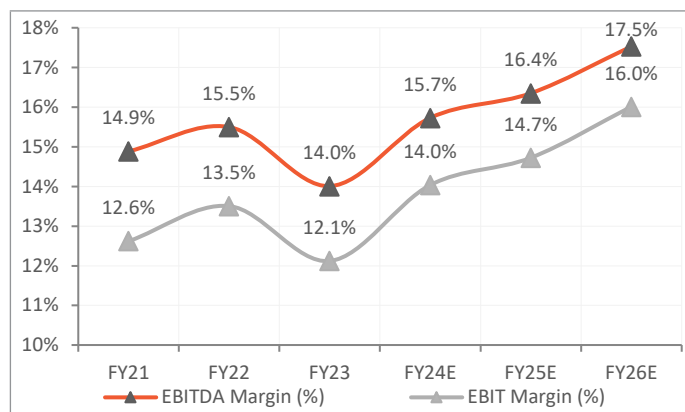
Source: Company, Sharekhan Research

Deal win trend



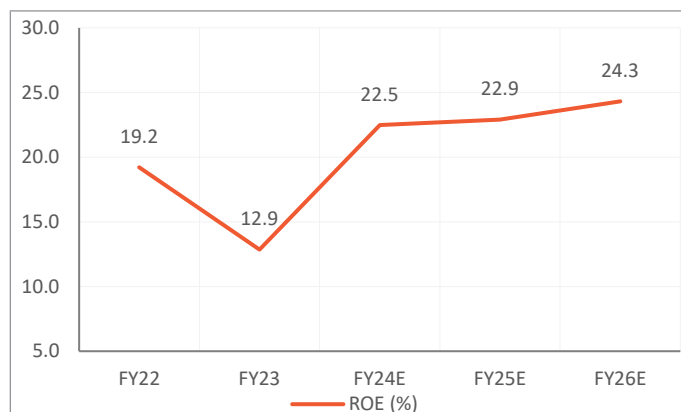
Source: Company, Sharekhan Research

Expect margin to improve over FY2023-FY2026E



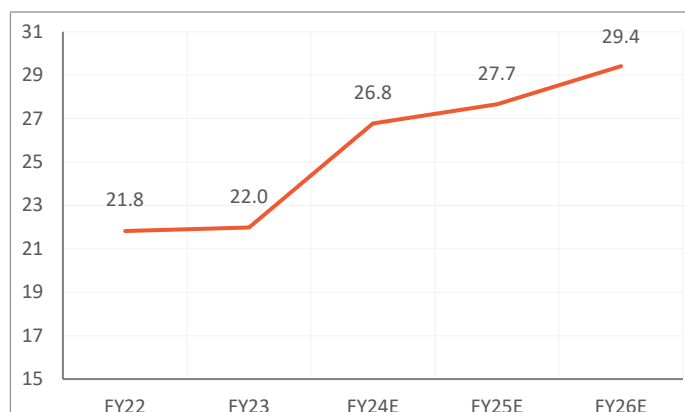
Source: Company, Sharekhan Research

ROE (%)



Source: Company, Sharekhan Research

ROCE (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Macro headwinds bottoming out coupled with better earnings visibility.

We anticipate growth momentum to return in FY25, aided by a lower base coupled with easing sector headwinds. Although the IT sector has already outperformed the Nifty last year, we expect overall outperformance in CY24 as well, driven by receding headwinds and better earnings visibility.

■ Company Outlook – Moving in the right direction.

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 FY2025, led by strong growth in enterprise solutions, a robust deal intake, healthy deal pipeline, and broad-based demand across verticals. Further, management aspires to maintain its EBITDA margin of above 15% in the subsequent quarters despite supply-side issues and investments for capability enhancements.

■ Valuation – Maintain BUY with unchanged PT of Rs. 950

Birlasoft has consistently delivered strong earnings outperformance under the revamped leadership for the last several quarters. We believe the company's efforts towards driving sales, account mining, and rationalising account tail are likely to result in strong deal signings and augment the healthy order book. We expect strong ~15%/23% Sales and PAT CAGR, respectively, over FY24-26E. Hence, we maintain BUY on Birlasoft with an unchanged price target (PT) of Rs. 950, as it remains well placed to deliver top-quartile performance, aided by robust order book and deal ramp-ups. At CMP, the stock trades at 28.7x/22.8x its FY25/26E 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 recession in the U.S. 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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BlackRock Inc	5.01
2	Axis Asset Management Co Ltd	4.75
3	L&T Mutual Fund Trustee Ltd	2.78
4	Vanguard Group Inc	2.24
5	Central India Industries Ltd	1.87
6	BNP Paribas SA	1.55
7	Dimensional Fund Advisors LP	1.46
8	Tata Asset Management Pvt Ltd	1.13
9	Nippon Life India Asset Management	1.06
10	Aditya Birla Sun Life Asset Manage	1.05

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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