

Birlasoft: In-line Q4, targets above-industry growth in FY25; upgrading to a Buy

Rating: **Buy**

Target price (12-mth): Rs.810

Share price: Rs.650

- In-line growth in Q4, with 1.6% q/q and 9.6% y/y growth
- TCV in Q4 (down 16% y/y) and H2 (down 11% y/y) was soft. In FY24, it was flattish (up 1%). However, the book:bill was 1.5x (LTM 1.4x), hence, the slow FY24 TCV growth may not impact revenue growth in FY25
- The Q4 EBITDA margin was 16.3%, the fifth consecutive quarter of expansion
- Management aims at delivering industry-leading growth in FY25 and keep margins steady
- CFO:NI at 112% (three-year average 114%); FCF:NI at 108% (three-year average 102%)

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rsm)	41,304	47,948	52,781	56,877	63,263
Net profit (Rsm)	4,636	3,315	6,402	6,815	7,937
EPS (Rs)	16.4	11.9	22.2	24.9	29.8
PE (x)	40.4	56.5	29.3	27.5	23.6
EVEBITDA (x)	26.6	25.3	20.4	18.5	15.7
PBV (x)	7.3	7.7	6.2	6.1	5.9
RoE (%)	19.5	13.2	23.3	22.3	25.4
RoCE (%)	16.4	16.4	19.2	18.8	21.7
Dividend yield (%)	0.7	0.5	1.0	1.1	1.2
Net debt/equity (x)	-0.5	-0.5	-0.6	-0.6	-0.5

Key data	BSOFT IN / BIRS.BO
52-week high / low	Rs862 / 272
Sensex / Nifty	74483 / 22605
3-m average volume	\$16.3m
Market cap	Rs179bn / \$2151.1m
Shares outstanding	276m

Shareholding (%)	Dec'23	Sep'23	Jun'23
Promoters	41.0	41.0	41.1
- of which, Pledged		-	-
Free float	59.1	59.0	58.9
- Foreign institutions	21.3	17.6	11.3
- Domestic institution	20.2	22.4	24.5
- Public	17.6	19.1	23.1

Mohit Jain
Research Analyst

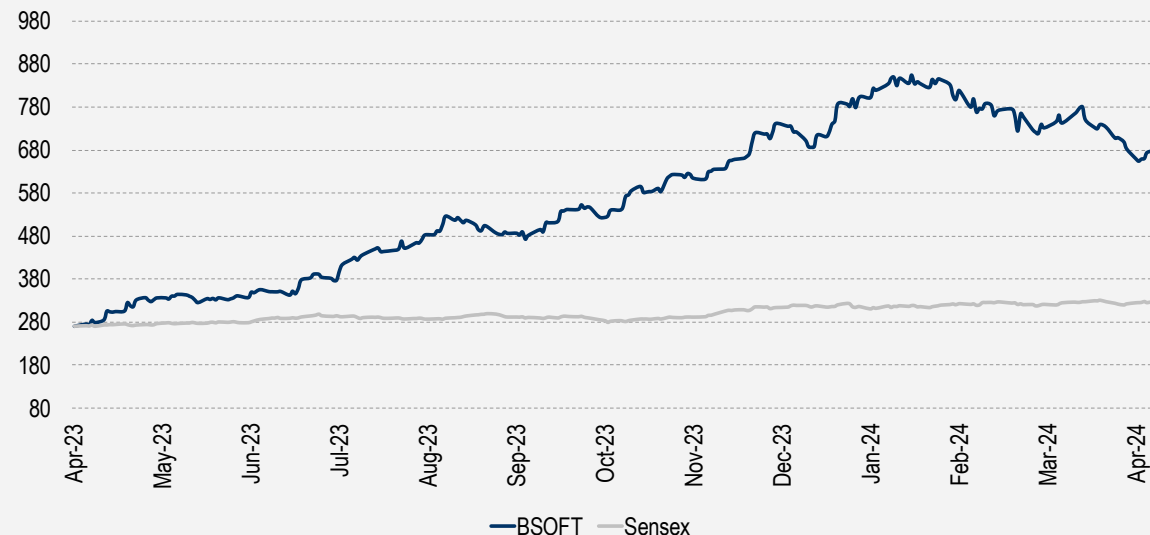
Jayalaxmi Gupta
Research Associate

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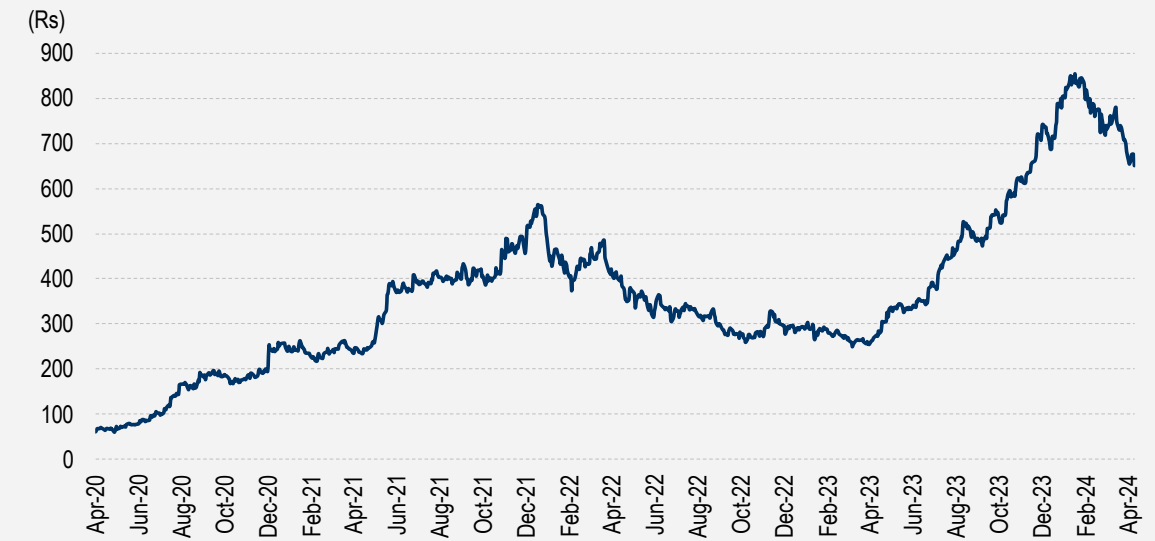
Birlasoft's Q4 revenue was \$164m, up 1.6% q/q, 10% y/y. Growth was broad-based across segments barring Healthcare. The company's key verticals like Manufacturing, BFSI and E&U grew at a faster pace. Healthcare fell sharply and is likely to recover only in H2. TCV of \$240m, down 16% y/y, took the LTM figure to \$875m, up 1% y/y. However, that should not be a problem in the near term as the book to bill was 1.5x (Q4) and 1.4x (FY24). This is the first-year post management change and hence, some of the figures are not strictly comparable. We reckon with the current book:bill, TCV can support industry-leading growth in FY25. The EBITDA margin expanded to 16.3%, up 30bps q/q and 265bps y/y. We maintain FY25e earnings but cut FY26e ~2.5% as TCV needs to recover by then. The revised TP is Rs810 (Rs870 earlier), valued at 27x (revision driven by broader sector valuations) FY26e PE. We upgrade to a Buy

- **Impressive FY24 performance.** The company delivered strong growth throughout FY24, despite the worsening environment. It started the year with 2% y/y growth and ended with 10% y/y growth. Management alluded to rationalising its tail accounts by bringing down active clients to 259 in Q4 (288 in Q4 FY23). In terms of verticals, growth was tilted toward BFSI, Manufacturing and E&U. Healthcare was soft and is expected to continue this weakness in H1 before improving in H2. Within regions, the US continues to drive growth
- **Q4 EBITDA margin expanded 265bps y/y to 16.3%.** The Q4 EBIT margin of 14.7%, up 33bps q/q, 282bps y/y, was impressive, despite the sequential drop in utilisation and the offshore revenue proportion. Utilisation fell 80bps sequentially to 86.3%. Attrition declined 20bps to 12.4%. Headcount added saw a sharp improvement of 239, taking the total to 12,595, >3% y/y
- **Business outlook.** Management aims at delivering industry-leading growth in FY25 and keep its margins at current level
- **Upgrading to a Buy.** We expect FY24-26 revenue CAGR of 9.5%, EBITDA CAGR of 16.9% and PAT CAGR of 11%. Our EBITDA margin expectation is 17.1% for FY26 vs. 16.3% in Q4 FY24. The stock is currently trading at 24x FY26e EPS, which we find attractive. Risk: More dependence on US manufacturing

Relative-price performance



Price movement



Q4 results snapshot

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q/Q %	Y/Y %
Revenue (\$ m)	149	149	148	149	152	158	161	164	1.6%	9.9%
Growth Y/Y %	16%	9%	3%	2%	2%	6%	9%	10%		
Industry Y/Y % (est.)	17%	13%	9%	10%	8%	6%	9%	6%		
Revenue (Rs m)	11,544	11,921	12,219	12,264	12,628	13,099	13,430	13,625	1.5%	11.1%
Effec. exchange rate	77.7	80.1	82.3	82.3	82.2	82.7	83.3	83.1	-0.2%	1.1%
TCV (\$ m)	185	166	231	286	146	271	218	240	10.1%	-16.1%
TCV (LTM)	729	755	804	868	829	934	921	875	-5.0%	0.8%
Y/Y %	21%	19%	27%	29%	-21%	63%	-6%	-16%		
TCV:Rev.	1.2	1.1	1.6	1.9	1.0	1.7	1.4	1.5		
Employees (EoP)	12,565	12,758	12,530	12,193	12,235	12,322	12,356	12,595	1.9%	3.3%
Rev. prod. (\$ '000/employee)	12.0	11.8	11.7	12.1	12.4	12.9	13.1	13.1	0.5%	8.9%
Utilisation % (IT Services)	82.5%	82.4%	84.0%	84.8%	84.9%	86.5%	87.1%	86.3%	-80 bps	150 bps
Attrition LTM	27.9%	27.4%	25.5%	22.1%	18.8%	15.0%	12.6%	12.4%	-20 bps	-970 bps
CoR (excl. D&A)	(8,661)	(8,973)	(9,435)	(9,390)	(9,483)	(9,776)	(10,017)	(10,127)	1.1%	7.8%
As % of revenue	-75%	-75%	-77%	-77%	-75%	-75%	-75%	-74%	26 bps	224 bps
SG&A	(1,185)	(1,184)	(1,200)	(1,204)	(1,214)	(1,252)	(1,270)	(1,282)	0.9%	6.5%
As % of revenue.	-10%	-10%	-10%	-10%	-10%	-10%	-9%	-9%	5 bps	41 bps
EBITDA	1,698	1,764	1,584	1,670	1,931	2,071	2,143	2,217	3.4%	32.7%
EBITDA margins %	15%	15%	13%	14%	15%	16%	16%	16%	31 bps	265 bps
EBIT	1,502	1,557	1,374	1,460	1,717	1,856	1,932	2,006	3.8%	37.4%
EBIT margins %	13%	13%	11%	12%	14%	14%	14%	15%	33 bps	282 bps
Industry margins % (est.)	16.4%	14.6%	15.4%	16.0%	16.1%	16.0%	15.4%	16.0%	64 bps	-1 bps
Other income (excl. forex)	118	36	54	96	134	203	216	468	117.1%	389.2%
Non-recurring / Forex	37	(63)	69	(119)	171	(47)	66	(11)	-116.8%	-90.7%
Interest expenses	(33)	(58)	(56)	(40)	(42)	(57)	(60)	(41)	-31.4%	2.0%
PBT	1,624	1,472	-68	1,397	1,980	1,955	2,154	2,422	12.4%	73.4%
PBT margins %	14%	12%	-1%	11%	16%	15%	16%	18%	173 bps	639 bps
Taxes	(417)	(321)	(95)	(276)	(440)	(504)	(544)	(621)	14.2%	125.1%
ETR %	-26%	-22%	NM	-20%	-22%	-26%	-25%	-26%	-41 bps	NA
Net income	1,207	1,151	(164)	1,121	1,540	1,451	1,611	1,801	11.8%	60.6%
Net margins %	10%	10%	-1%	9%	12%	11%	12%	13%	122 bps	408 bps
Industry net margins %	12.7%	11.9%	11.6%	12.8%	12.6%	11.9%	12.4%	12.8%	41 bps	-5 bps
EPS (Rs)	4.3	4.1	-0.6	4.0	4.9	5.2	5.7	6.4	11.5%	59.0%

Management commentary

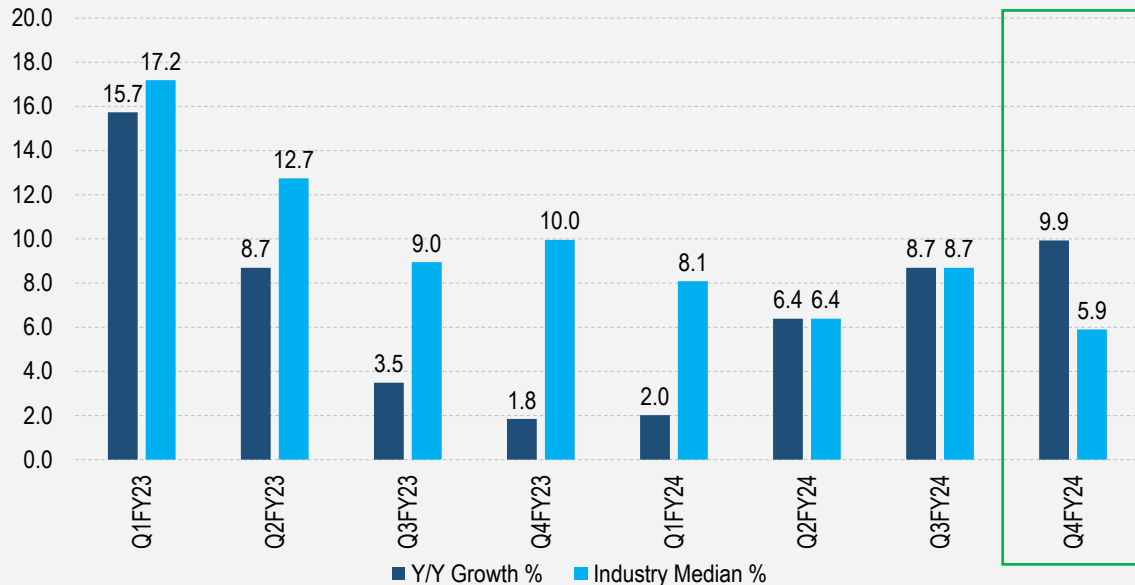
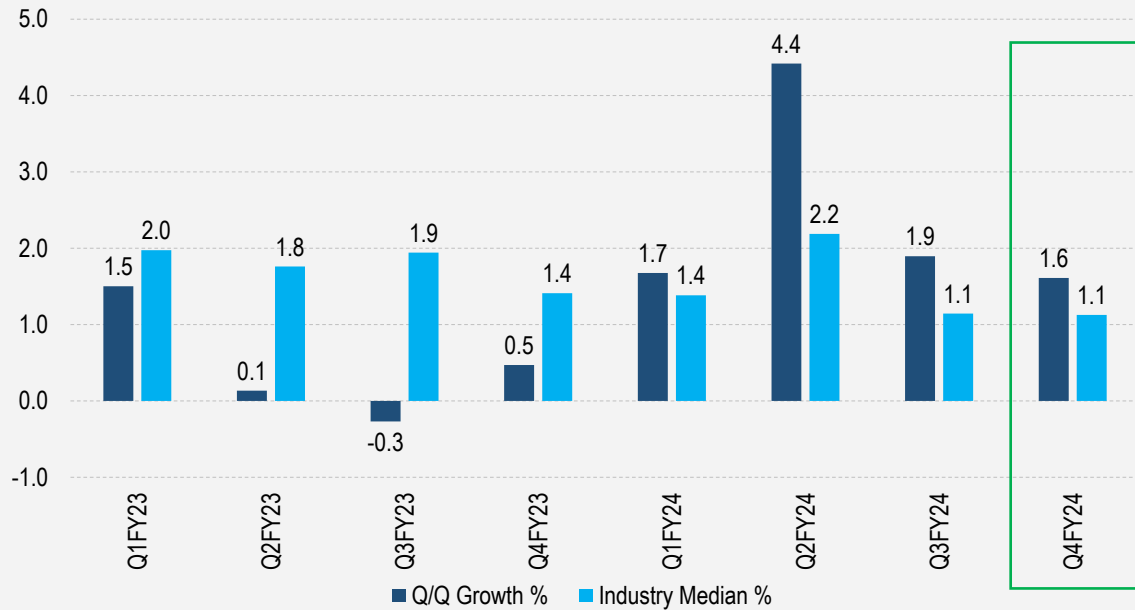
- Q4 saw some short-term assignments, but a lot less compared to Q3. Hence, the growth rate was a little slower
- Healthcare may face problems in H1 as well and then improve from H2
- Although TCV of \$240m was down 16% y/y, management is confident of regaining the deal win momentum ahead and delivering industry-leading growth
- The 80bps q/q decline in utilisation was largely due to strong hiring of 239 employees in Q4
- The EBITDA margin expansion was driven by better realisations and operational efficiency. A one-time benefit from leave reversal was seen as well
- Margins to remain range-bound ahead

Birlasoft- Q4 peer comparison

	TCS	Persistent	BSOFT	Zensar	Mastek
Sales (\$ m)	7,363	311	164	148	94
% chg. Q/Q	1.1	3.4	1.6	2.3	(0.3)
% chg. Y/Y	2.3	13.2	9.9	0.4	8.6
Sales (Rsm)	6,12,370	25,905	13,625	12,297	7,797
% chg. Q/Q	1.1	3.7	1.5	2.1	(0.6)
% chg. Y/Y	3.5	14.9	11.1	1.4	9.9
EBITDA (Rsm)	1,71,640	4,544	2,217	2,030	1,251
% chg. Q/Q	4.7	2.8	3.4	(2.2)	(6.3)
% chg. Y/Y	8.8	9.1	32.7	15.5	(0.3)
EBITDA margin (%)	28.0	17.5	16.3	16.5	16.0
chg. Q/Q	98 bps	-15 bps	31 bps	(73.3)	-98 bps
chg. Y/Y	137 bps	-93 bps	265 bps	201.0	-166 bps
EBIT (Rsm)	1,59,180	3,744	2,006	1,793	976
% chg. Q/Q	5.0	3.1	3.8	1.6	(12.6)
% chg. Y/Y	9.9	8.0	37.4	27.4	(7.9)
EBIT margin (%)	26.0	14.5	14.7	14.6	12.5
chg. Q/Q	98 bps	-8 bps	33 bps	-7 bps	-172 bps
chg. Y/Y	151 bps	-92 bps	282 bps	298 bps	-242 bps
PBT (Rsm)	1,68,490	3,955	2,422	2,286	939
% chg. Q/Q	10.9	1.6	12.4	7.8	(7.8)
% chg. Y/Y	9.5	16.1	73.4	41.5	(2.5)
Tax rate (%)	(25.8)	(20.3)	(25.7)	(24.2)	0.6
chg. Q/Q	116 bps	623 bps	-41 bps	-42 bps	2419 bps
chg. Y/Y	-10 bps	588 bps	-58952%	205 bps	251734%
Net income (Rsm)	1,24,340	3,153	1,801	1,733	921
Net Margin %	20.3%	12.2%	13.2%	14.1%	11.8%

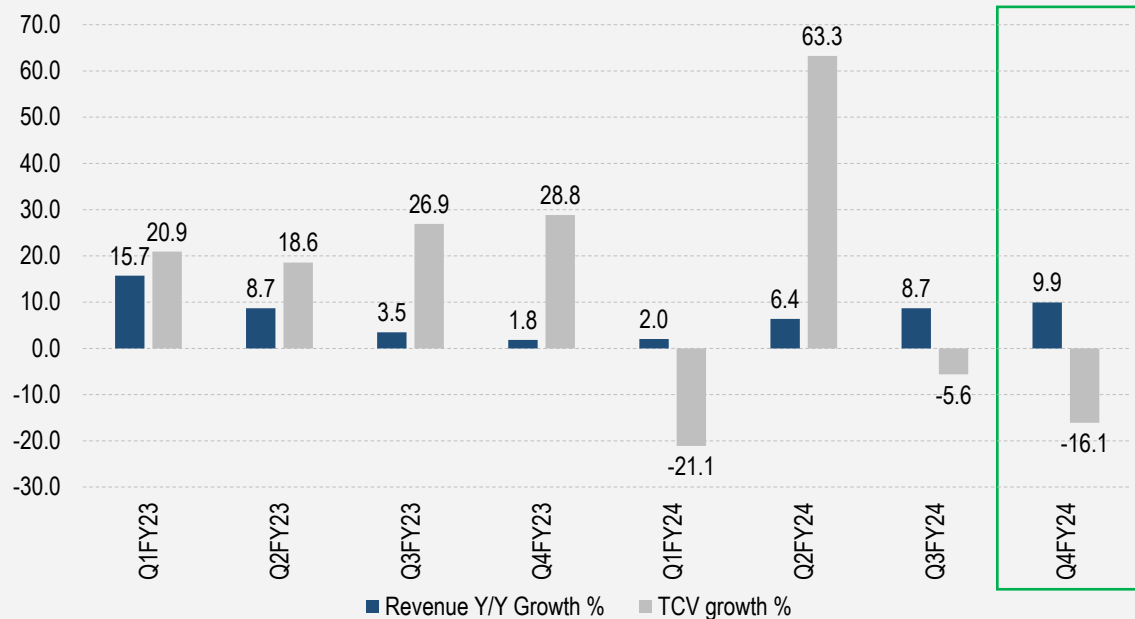
Birlasoft						
Quarterly results						
Year-end: Mar (Rs m)	Q4FY24	% chg. Q/Q	% chg. Y/Y	FY23	FY24	FY24 % chg. Y/Y
Sales (\$ m)	164	1.6	9.9	595	635	6.8
Sales	13,625	1.5	11.1	47,948	52,781	10.1
EBITDA	2,217	3.4	32.7	6,715	8,362	24.5
EBITDA margin (%)	16	31 bps	265 bps	14.0	15.8	184 bps
EBIT	2,006	3.8	37.4	5,892	7,512	27.5
EBIT margin (%)	14.7	33 bps	282 bps	12.3	14.2	194 bps
PBT	2,422	12.4	73.4	4,424	8,512	92.4
Tax	(621)	14.2	125.1	(1,109)	(2,110)	90.3
Tax rate (%)	(25.7)	-41 bps	-590 bps	(25.1)	(24.8)	28 bps
Net income	1,801	11.8	60.6	3,315	6,402	93.1

Birlasoft- Revenue growth holding up well

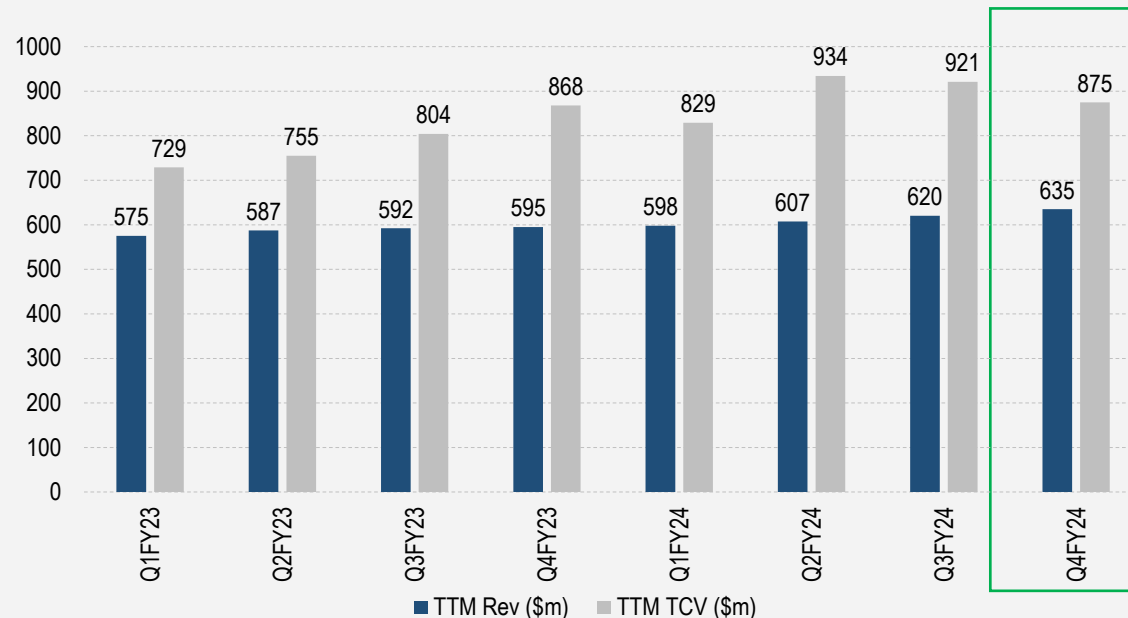


- Birlasoft has consistently outstripped industry figures over the last four quarters. Although the gap versus the industry has narrowed, the growth rate is likely to remain ahead of that of the industry
- In Q4, the company registered slightly slower growth due to the sharp decline in Healthcare/ Life Sciences revenues
- On a y/y basis, the company saw remarkable improvement in Q4; from being at par with the industry in the last two quarters to racing ahead in Q4
- The company has guided to industry-leading growth in FY25 as well, but repeating a similar performance would be difficult

Weak TCV growth in FY24, management expects improvement in FY25

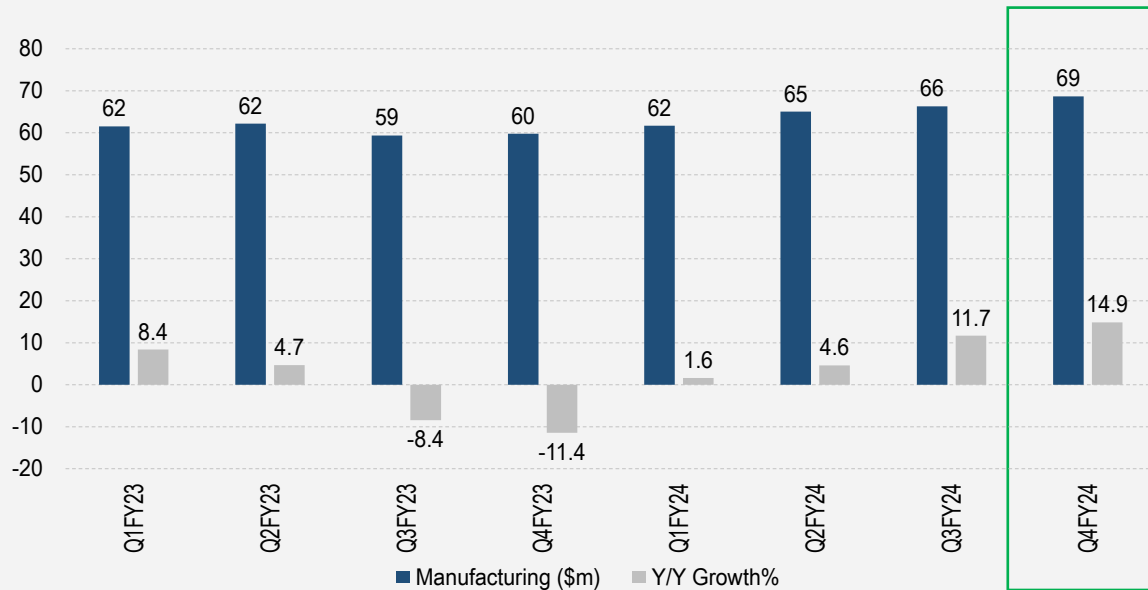


- TCV (net new) was softer in Q4 (\$107m, down 6% y/y), taking the TTM figure to \$448m, down 4% y/y
- TCV, incl. renewals, was \$240m (\$218m the quarter prior, \$286m a year ago), generating a 1.5x book-to-bill in Q4 compared to 1.9x in Q4 FY23
- Given the book:bill, current TCV can support the aspiration of industry-leading growth in FY25

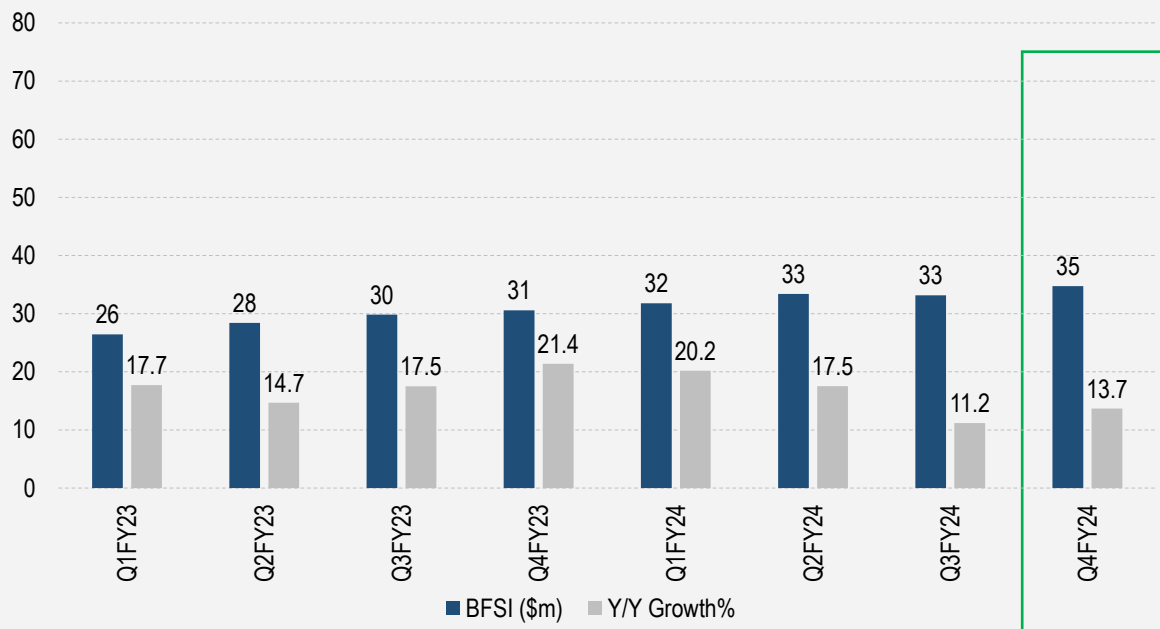


- In Q4, TTM TCV continued to trend above TTM revenue, suggesting durability in growth
- While TCV growth was not there in Q4 and FY24, the gap between TCV and revenue is so much that it can support FY25 growth, in our opinion

Manufacturing and BFSI continue to accelerate

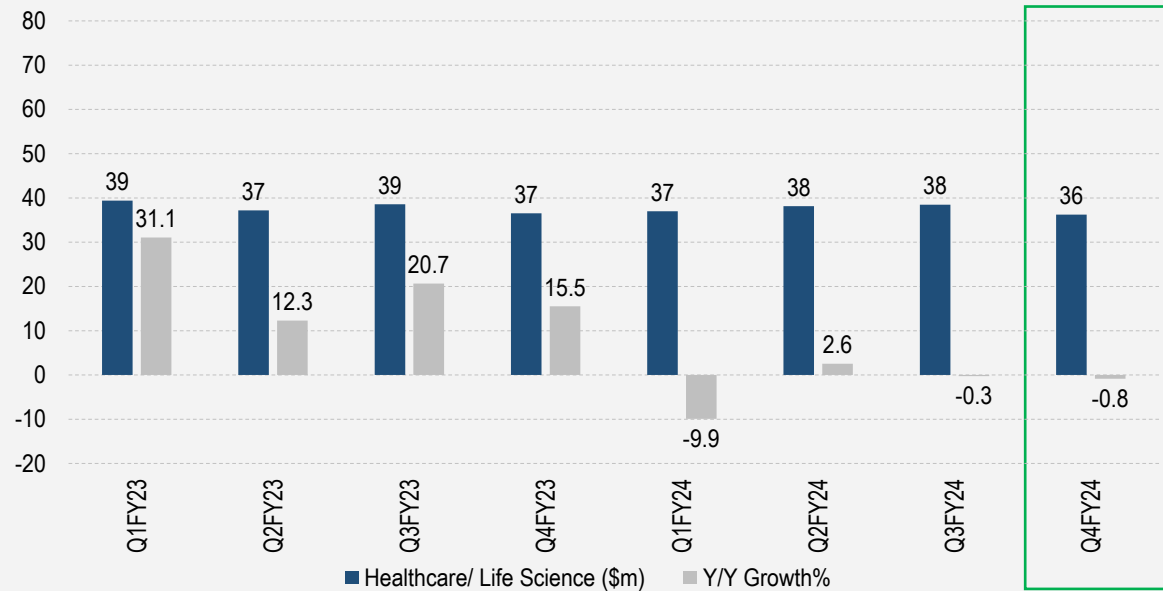


- **Manufacturing grew 3.6% sequentially.** This vertical is also aligned with the core-service category, Enterprise Solutions (~7.3% q/q growth), where growth is likely to remain high due to ERP upgrades/migrations
- Manufacturing is also performing well for some of the larger peers like TCS and HCLT. Birlasoft also benefitted from industry growth

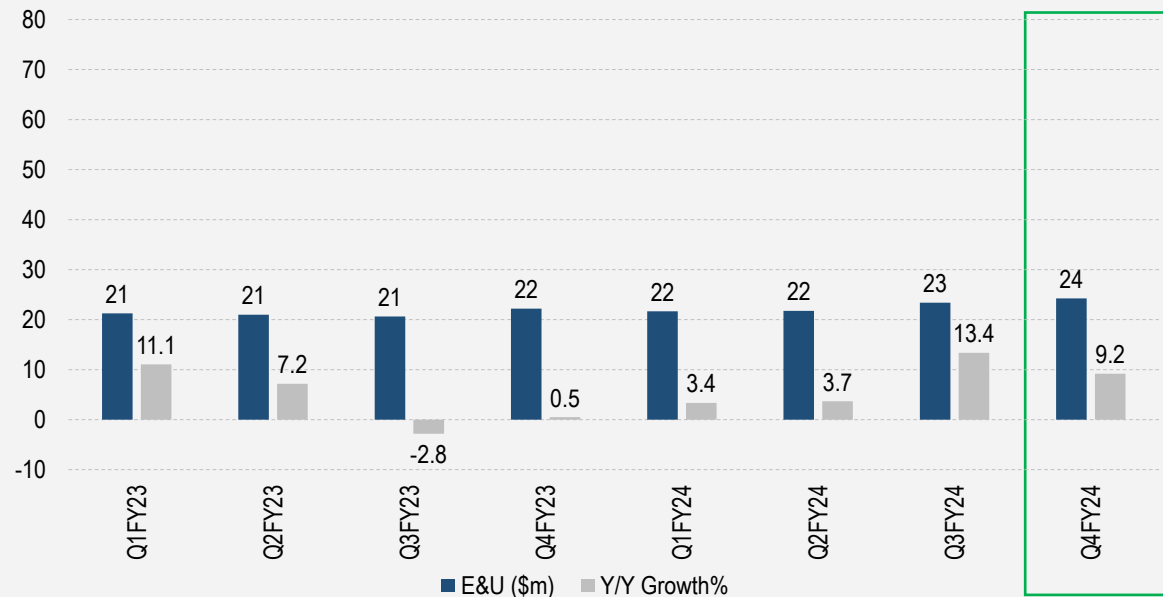


- **BFSI grew 4.8% sequentially.** The third largest vertical, BFSI, continued to grow fast and is driven by client mining and opening of new accounts. Management expects growth to continue ahead
- The company has no exposure to the larger banks in the US or Europe, compared to bigger peers, but is working on it. It mainly focuses on lending, payment and financial services infrastructure companies, which are in good shape and appear immune to major slowdowns

Healthcare declined, while E&U remained steady

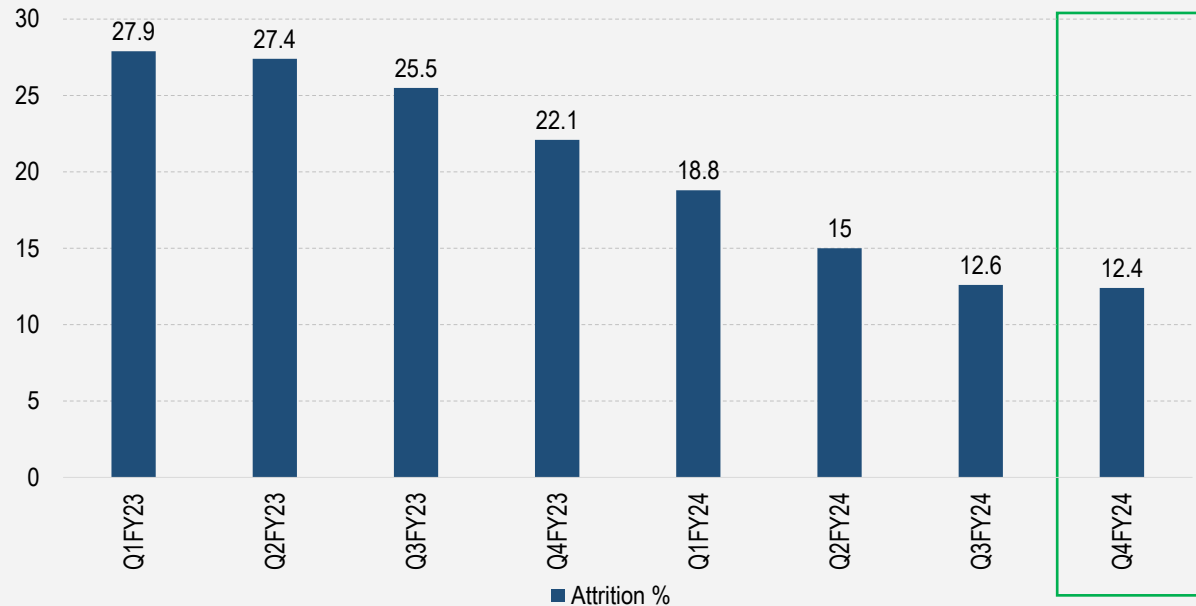
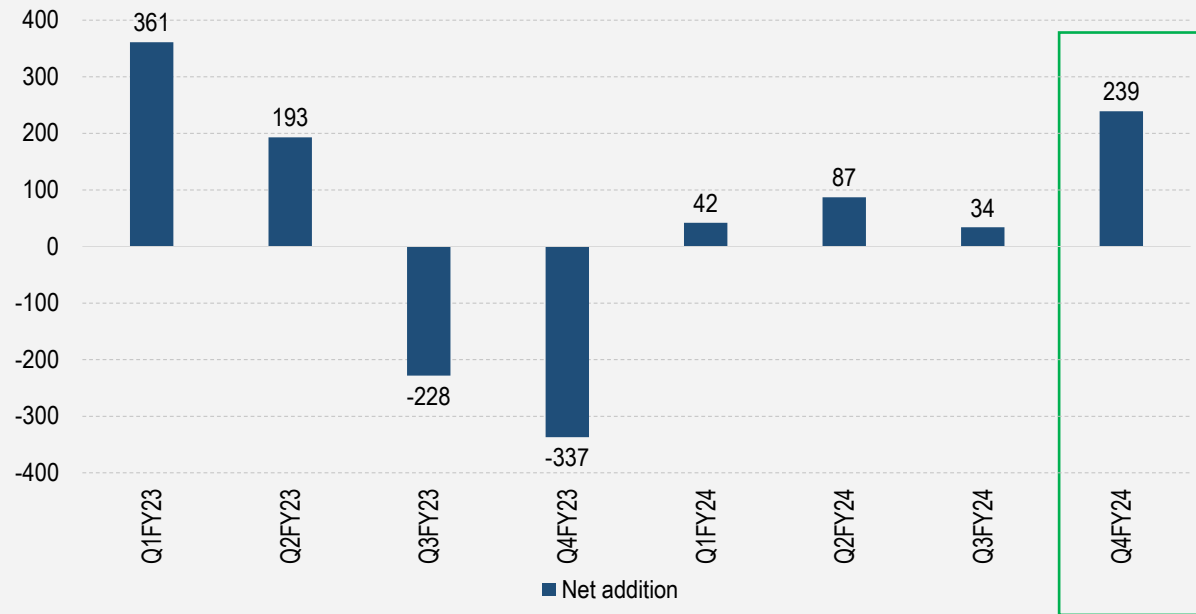


- Healthcare/Life Sciences fell 5.9% q/q in Q4. This was contrary to peers, with most continuing to have a positive view on the vertical
- The company expects weakness here over the next two quarters as well and then recovery toward H2



- In Q4, the E&U vertical grew 4% q/q on ~8% q/q rise in Q3
- Y/y growth of 9.2% was due to 0.5% y/y growth in the base quarter (Q4 FY23). The company remains optimistic in terms of growth outlook here, although it is a relatively smaller vertical

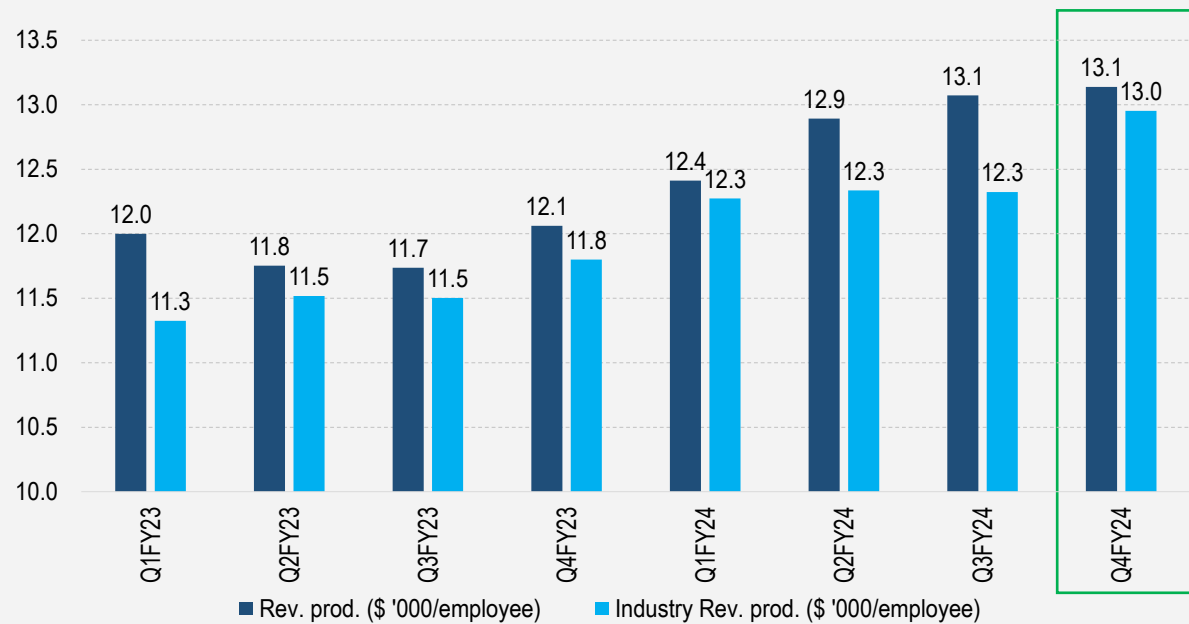
Net headcount addition highest in the last seven quarters



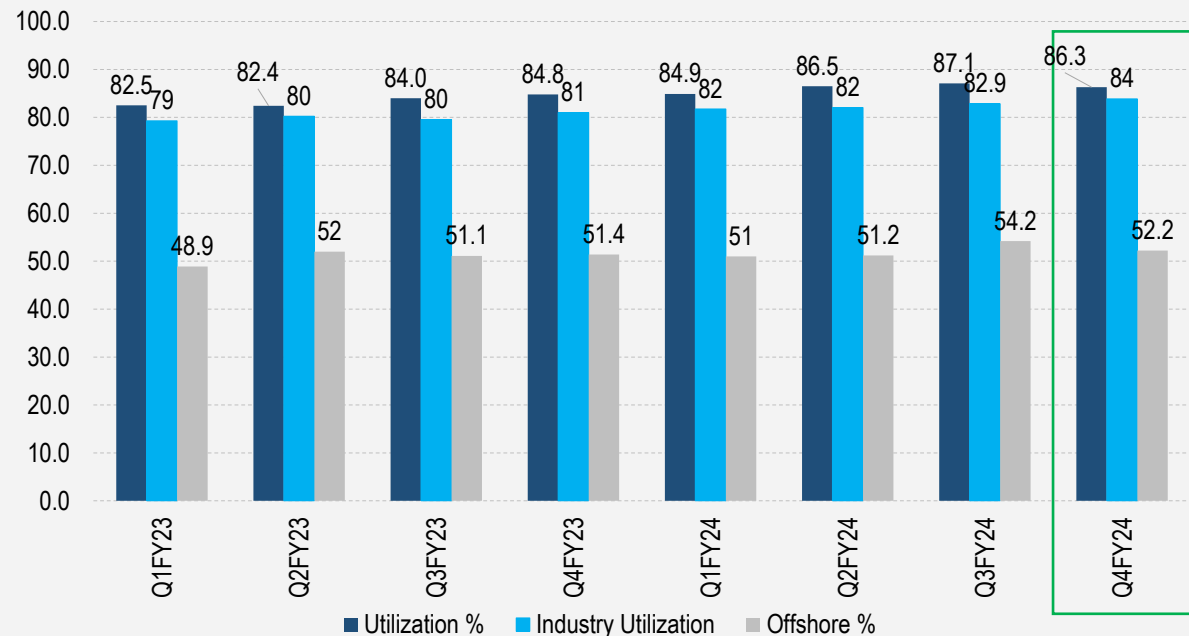
- The company grew its workforce by 239 in Q4 on net addition of 163 in 9M FYF24, taking the total to 12,595, up 3.3% y/y
- This strong hiring in Q4 builds optimism for growth in FY25

- **Attrition steady.** Attrition increased 20bps in Q4 and is largely stable sequentially. Attrition is not a concern any more in the industry
- Per management, major hiring at the senior level has been done, and now the focus is on execution

Revenue productivity steady, utilisation and offshoring decline

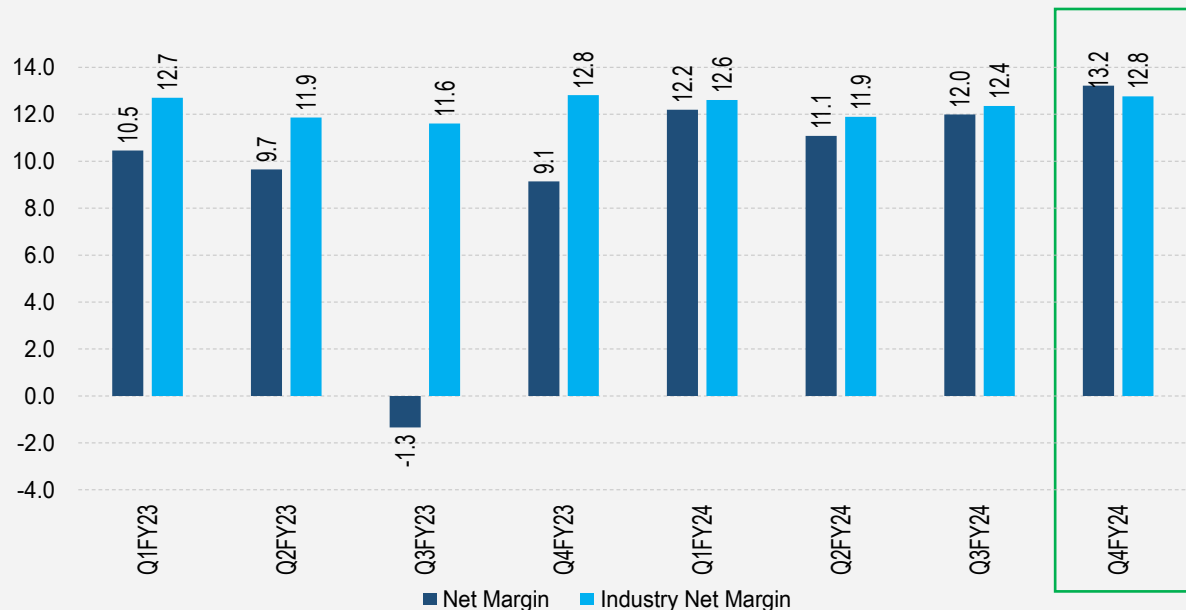
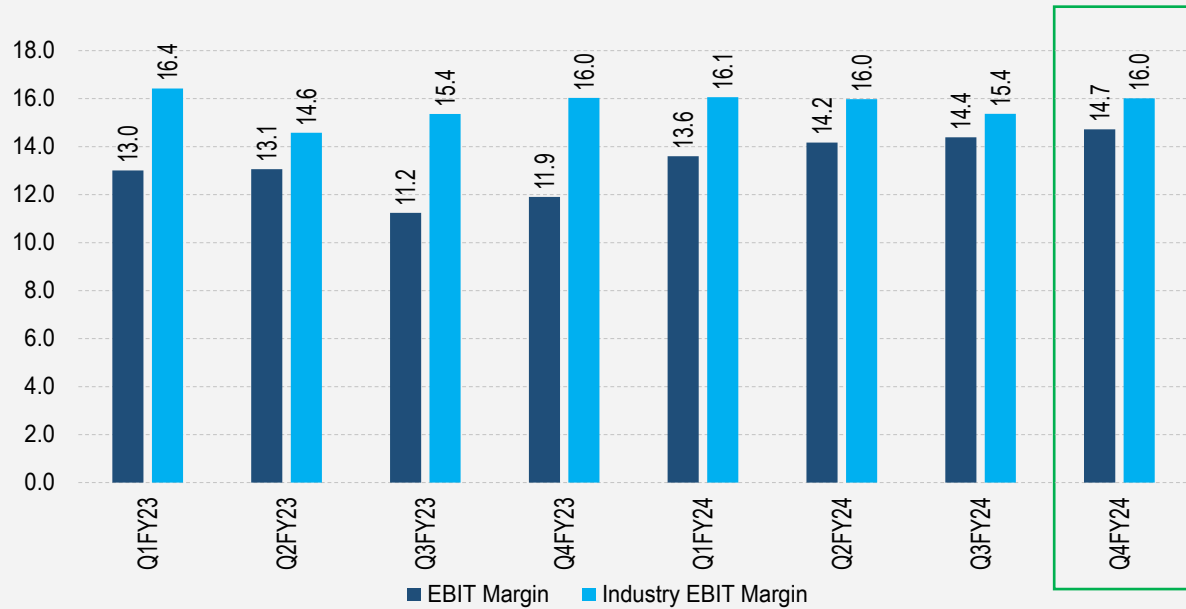


- Revenue productivity at several quarters' high, is now at industry level. It has been steady in the last two quarters, mainly due to the increase in headcount
- We expect revenue productivity to come off the peaks ahead as the company builds on the higher offshore proportion of work and operates at slightly lower utilisation



- Utilisation is currently ~86.3%, which is down 80bps q/q, as the company is looking to hire resources. We expect it to come off a bit more ahead and expect the company to operate within 85-86%
- In Q4, offshoring was down 200bps. However, the company believes that this is not a trend and expects it to increase ahead

Profitability continues to inch up toward the industry median



- The company continued margin expansion in Q4, despite growth-related investments coupled with sequential drop in both utilisation and offshore revenues
 - The expansion was supported by steady revenue productivity and reversal of provisioned leaves. Leave reversal is a Q4 phenomenon and hence, not one-off in nature
 - The Q4 EBIT margin of 14.7% expanded 33bps q/q, further narrowing the gap with the industry median
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- Overall, Q4 net income continued to trend upward, now slightly ahead of the industry
 - The company delivered 13.2% net margin in Q4, up 122bps q/q
 - ETR for the quarter was at 25.7%

Conference call highlights - Q4 FY24

- Growth in Q4 was impacted by the challenging environment, which led to delayed decision-making. TCV wins remained weak, but management is working toward getting back to growth here
- In terms of demand environment, the company does not see any material change in macros but clients remain cautiously optimistic and deal sizes are getting smaller with more cost-optimisation deals visible. Discretionary-related spend is going down for most of the clients or getting pushed
- The company has a very large account in BFSI, which is doing well, along with the opening of new accounts, mining the existing ones, which aided growth
- The optimist program is going to span two-three-years, where BSOFI would use Gen AI technologies to not only disrupt its own processes but also automate processes within the organisation, to make the company more technology-enabled
- The strategy of leveraging strength, retaining and mining existing accounts has been playing out well
- It plans to continue its investment strategy in the future, to build more domain-led capabilities

Business outlook

- Management aims at delivering industry-leading growth in FY25, and keep its margins in a narrow band

Conference call highlights - previous quarters

Q3 FY24 (Growth q/q: +1.9%, y/y: +9%, EBIT margins 14.4%)

- There is enormous opportunity in SAP/S4HANA as large/mid-sized companies in the US, Europe and the UK are moving from on-premise to cloud. The pipeline is improving in this segment. In terms of demand environment, the company does not see any material change in macro but the clients remain cautiously optimistic and deal sizes are getting smaller with more cost-optimisation deals visible
- The strategy of leveraging strength, retaining and mining existing accounts has been playing out, which was visible in deal flows and top account growth. The fixed-price share of the business is going up; large deals closed in Q2 have not yet ramped up
- Business Outlook: The company expects to keep margins in a narrow band

Q2 FY24 (Growth q/q: +4.4%, y/y: +6%, EBIT margins 14.2%)

- Constant currency was \$159.1m led by account mining and deal ramp ups; Cash flows and cash balances improved, sustained improvements were an outcome of operating leverage and operational efficiencies
- Pipeline was strong, despite unfavorable environment and the high interest rates impacted the business. TCV signings have been 21% over the last nine months. As the business turnaround and BSOFT gets back to growth, margins will also start improving going forward
- Ex Invacare ERP has grown 2-2.5% q/q, company remains bullish on ERP, company has appointed a leader in ERP; company anticipates entire SAP s Four Hana movement will complete by 2027 representing an enormous opportunity for smaller companies, expect growth to back in couple of quarters in ERP
- Business Outlook: Management expects Q3 to be softer impacted by furlough, hence will be muted; while Q4 is expected to be back on growth trajectory. EBITDA margin to be in the range of 15.5 — 17.0% over medium term

Q1 FY24 (Growth q/q: +1.7%, y/y: +2%, EBIT margins 12.5%)

- Pipeline healthy; is discussing with clients; expects deals to improve noticeably in the next couple of quarters. Investments to strengthen capabilities, poised to capitalise on an uptrend as and when demand rebounds; Established an AI Centre of Excellence in collaboration with Microsoft to strengthen its ability in Microsoft Azure open AI service. Also training 500 consultants in Gen AI
- Deals look good q/q. Softness was primarily due to some closures, which were supposed to happen in Q1 and were pushed to Q2. But the pipeline is improving; has not lost any deals to competition
- Business Outlook: FY24 growth: Should growth at industry level growth on a sequential basis; EBITDA margins: Q4 EBITDA margins to be at 16%; ETR: ~25%

Q4 FY23 (Growth q/q: +0.5%, y/y: +2%, EBIT margins 11.9%)

- While deals still figure in the pipeline, conversion to revenue is taking longer. Also, some assignments are not continuing/being renewed as anticipated; hence, slower growth in FY24 is likely. Invacare brought \$14m in 9M FY23; it was not there in Q4 (shortfall of \$4m); Won a large deal of \$50m in Q4, with a ~40% new component; the balance, renewal
- The company is being re-organized into a vertical-led organization. The US, its largest region, will have four verticals: BFSI, Manufacturing, Healthcare and E&U. Each vertical head will be responsible for its P&L and will report to the US CEO
- Business Outlook: FY23 growth: Steady sequential growth. No quantification; FY24 EBITDA margins: 15-16%; ETR: 25%

Revenue-split, by industry

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
BFSI	17.8	19.1	20.1	20.5	20.7	21.1	20.6	21.2
Manufacturing	41.4	41.8	40.0	40.1	40.7	41.1	41.1	41.9
Healthcare / Life Sciences	26.5	25.0	26.0	24.5	24.4	24.1	23.9	22.1
E&U	14.3	14.1	13.9	14.9	14.3	13.7	14.5	14.8

Revenue-split, by region

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
North America	84.9	84.1	83.7	85.3	84.0	85.8	85.7	86.5
RoW	5.9	15.9	16.3	14.7	16.1	14.2	14.3	13.5

Operational performance

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Growth, by vertical (Y/Y)								
BFSI	17.7	14.7	17.5	21.4	20.2	17.5	11.2	13.7
Manufacturing	8.4	4.7	(8.4)	(11.4)	1.6	4.6	11.7	14.9
Healthcare / Life Sciences	31.1	12.3	20.7	15.5	(9.9)	2.6	(0.3)	(0.8)
E&U	11.1	7.2	(2.8)	0.5	3.4	3.7	13.4	9.2

Top horizontals growth (Y/Y)

ERP	-	(7.5)	(20.9)	(18.3)	(12.5)	(1.5)	9.0	12.9
Digital & Cloud	-	38.7	46.4	42.9	16.3	29.0	21.1	15.8
ICTS	-	(15.8)	(20.5)	(22.2)	7.0	(4.8)	(2.1)	(5.0)
Data & Analytics	-	-	-	-	7.0	-	-	-

Growth, by key regions Y/Y

North America	21.8	11.2	4.5	5.7	0.7	8.5	11.3	11.5
RoW	(9.0)	(2.9)	(1.4)	(15.9)	10.2	(5.0)	(4.6)	2.5

Revenue mix %

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
On-site	51.1	48	48.9	48.6	49	48.8	45.8	47.8
Offshore	48.9	52	51.1	51.4	51	51.2	54.2	52.2
T&M	40.8	40.2	39.2	38.3	38.5	39.1	37.3	38.4
FP	59.2	59.8	60.8	61.7	61.5	60.9	62.7	61.6

Client profiles (LTM)

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Client profiling								
\$1m+	82	76	83	83	86	85	83	87
\$5m+	25	27	24	26	27	27	26	26
\$10m+	13	14	13	13	13	11	11	12
Client additions (LTM)								
\$1m+	82	76	83	83	86	85	83	87
\$5m+	25	27	24	26	27	27	26	26
\$10m+	13	14	13	13	13	11	11	12
Active Clients	300	301	299	288	285	278	272	259
Client additions	4	1	(2)	(11)	(3)	(7)	(6)	(13)

Client concentration % (LTM)

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Top 5	31	31	32	33	33	34	35	35
Top 10	47	47	48	49	50	51	52	52
Top 20	63	64	64	64	64	64	65	65

Employee Movement

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Employees (EoP)	12,565	12,758	12,530	12,193	12,235	12,322	12,356	12,595
Gross additions	1,104	953	531	281	592	578	484	626
Attrition	743	760	759	618	550	491	450	387
Net additions	361	193	-228	-337	42	87	34	239
Attrition % - LTM	28%	27%	26%	22%	19%	15%	13%	12%
Utilisation % (cum trainees)	83%	82%	84%	85%	85%	87%	87%	86%

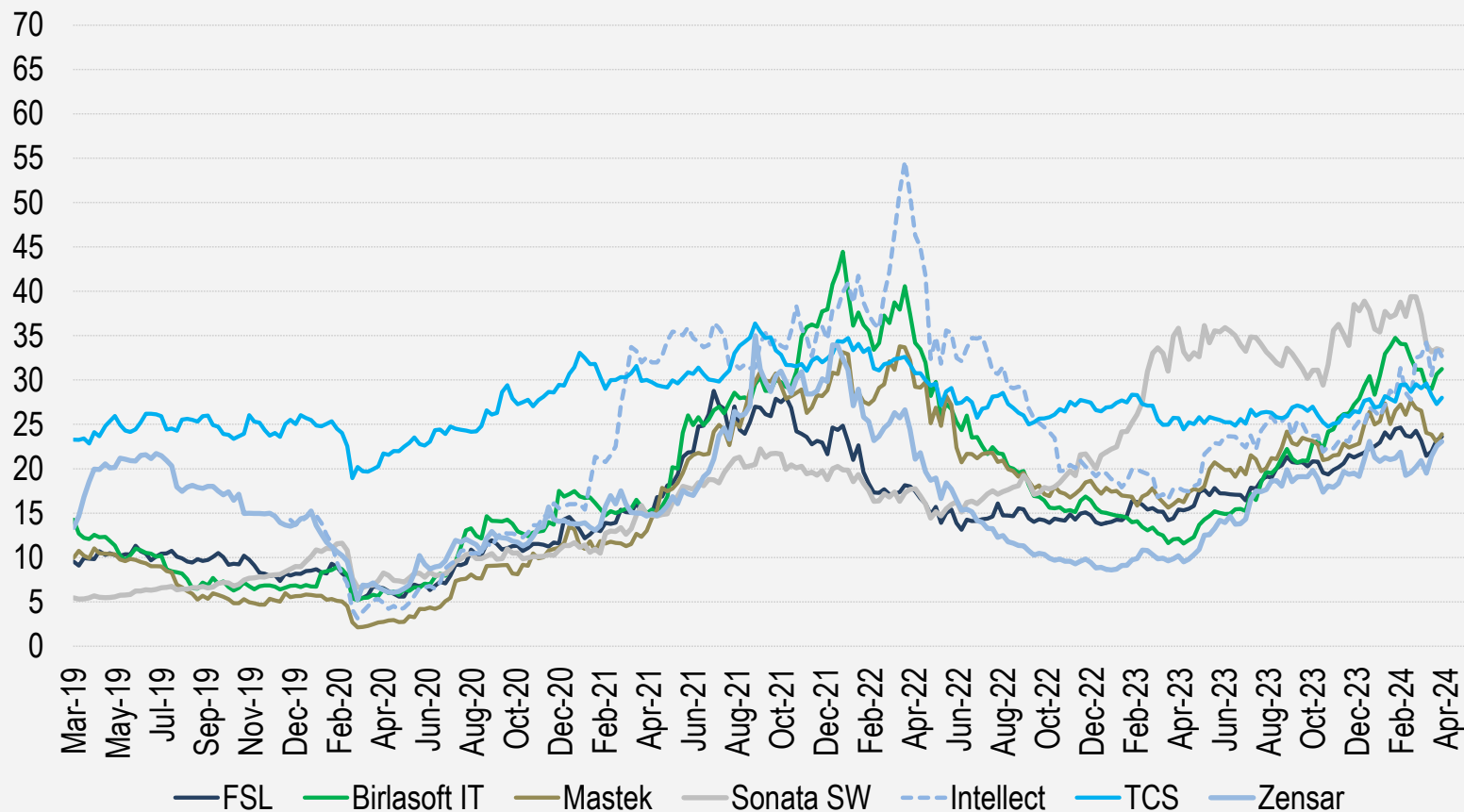
Estimates slightly tweaked

Birlasoft (Rs m)	FY24			FY25			FY26		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenue (\$ m)	635	635	(0.0)	684	702	(2.5)	761	785	(3.1)
Revenues	52,781	52,627	0.3	56,877	58,306	(2.5)	63,263	65,194	(3.0)
EBITDA	8,362	8,186	2.2	9,179	9,377	(2.1)	10,845	11,294	(4.0)
EBITDA margins %	15.8%	15.6%	29 bps	16.1%	16.1%	6 bps	17.1%	17.3%	-18 bps
EBIT	7,512	7,330	2.5	8,248	8,419	(2.0)	9,782	10,201	(4.1)
EBIT margins %	14.2%	13.9%	30 bps	14.5%	14.4%	6 bps	15.5%	15.6%	-18 bps
PBT	8,512	8,128	4.7	9,155	9,126	0.3	10,697	10,881	(1.7)
Net profit	6,402	6,083	5.2	6,815	6,832	(0.2)	7,937	8,145	(2.6)

Key estimates and changes

- We lower our FY25e/FY26e revenue respectively 2.5% / 3.1%, to reflect lower TCV in the current year and the continued weak environment as suggested by various companies
- We expect FY24e/25e EBITDA margins of 16.1%/17.1%, supported by operational efficiency and Birlasoft's convergence towards the industry. There is not much of a change in margin expectations
- We expect FY24-26 revenue CAGR of 9.5%, EBITDA CAGR of 16.9% and PAT CAGR of 11%. PAT CAGR is lower as the company benefitted from higher other income in FY24, which is non-recurring in nature

Valuations - Birlasoft trading at richer valuations



- Birlasoft has converged its financial performance to industry averages
- Consequently, the re-rating has been sharp after Feb'23
- Per our estimates, revenue could be \$761m by FY26, making Birlasoft a mid-sized IT company. The EBIT margin is likely to expand a cumulative ~125bps in the next two years, despite investments
- We value the stock at a forward PE of 27x FY26e, resulting in a 12-mth target price of Rs810
- From a FCF perspective, the company maintained an average of 102% over the last three years
- The company has ~\$210m cash. This, if allocated well, could result in a better earnings CAGR and scale benefits, assuming it succeeds in its acquisition strategy. Now that the company has delivered an organic revenue growth of 6.8%, with 15.8% margins in FY24, it may consider taking the inorganic route for growth in FY25
- The stock quotes at 24x FY26e PE, which we consider attractive

Risk:

- Risk: Vast dependence on US manufacturing

Quick Glance — Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Revenues (US\$m)	555	595	635	684	761
Growth (%)	15.7	7.2	6.8	7.7	11.2
Net revenues (Rs m)	41,304	47,948	52,781	56,877	63,263
Employee & Direct Costs	30,413	36,459	39,403	42,661	47,206
Gross Profit	10,890	11,489	13,379	14,215	16,058
Gross Margin %	26.37	23.96	25.35	24.99	25.38
SG&A	4,489	4,774	5,017	5,036	5,213
EBITDA	6,401	6,715	8,362	9,179	10,845
EBITDA margins (%)	15.5	14.0	15.8	16.1	17.1
- Depreciation	765	823	850	931	1,063
Other income	661	228	1,199	1,119	1,127
Interest Exp	130	186	199	212	212
PBT	6,167	5,934	8,512	9,155	10,697
Effective tax rate (%)	25	25	25	26	26
+ Associates/(Minorities)	-	-	-	-	-
Net Income	4,636	3,315	6,402	6,815	7,937
WANS	282	279	288	274	266
FDEPS (Rs/share)	16.4	11.9	22.2	24.9	29.8

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	6,167	5,934	8,512	9,155	10,697
+ Non-cash items	987	1,790	1,208	1	143
Operating profit before WC	7,153	7,724	9,720	9,155	10,840
- Incr./(decr.) in WC	2,563	800	730	820	1,343
Others including taxes	-1,784	-1,315	-1,807	-2,364	-2,786
Operating cash-flow	2,807	5,609	7,182	5,972	6,711
- Capex (tangible + Intangible)	638	577	262	851	947
Free cash-flow	2,169	5,032	6,920	5,120	5,764
Acquisitions	-	-	-	-	-
- Dividend (including buyback & taxes)	1,111	5,994	1,240	6,639	6,774
+ Equity raised	79	129	99	-	-
+ Debt raised	-405	-	-	-	-
- Fin Investments	2,114	-2,844	6,467	-676	257
- Misc. Items (CFI + CFF)	373	248	55	-1,119	-1,127
Net cash-flow	-1,755	1,763	-743	276	-140

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	559	550	552	544	536
Net worth	25,831	24,483	30,441	30,617	31,781
Total debt (incl. Pref)	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL/(Asset)	-1,048	-1,337	-1,042	-1,018	-991
Capital employed	24,782	23,146	29,399	29,600	30,789
Net tangible assets	2,584	2,325	1,919	1,839	1,723
Net Intangible assets	4,673	5,034	5,052	5,052	5,052
Goodwill	4,568	4,568	4,568	4,568	4,568
CWIP (tang. & intang.)	17	65	116	116	116
Investments (Strategic)					
Investments (Financial)	9,324	6,498	13,519	12,843	13,100
Current Assets (ex Cash)	12,939	11,619	13,441	14,637	16,438
Cash	2,906	4,669	3,926	4,202	4,062
Current Liabilities	7,660	7,064	8,574	9,090	9,702
Working capital	5,279	4,556	4,867	5,547	6,736
Capital deployed	24,782	23,146	29,399	29,600	30,789
Contingent Liabilities	1,513	1,513	-	-	-
	-	-	-	-	-

Fig 4 – Ratio analysis

Year end Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	40.4	56.5	29.3	27.5	23.6
EV/EBITDA (x)	26.6	25.3	20.4	18.5	15.7
EV/sales (x)	4.1	3.5	3.2	3.0	2.7
P/B (x)	7.3	7.7	6.2	6.1	5.9
RoE (%)	19.5	13.2	23.3	22.3	25.4
RoCE (%) - After tax	16.4	16.4	19.2	18.8	21.7
RoIC (%) - After tax	29.9	29.0	37.5	40.1	44.4
DPS (Rs per share)	4.5	3.5	6.5	7.2	7.9
Dividend yield (%)	0.7	0.5	1.0	1.1	1.2
Dividend payout (%) - Inc. DDT	27.4	117.2	102.4	97.4	85.3
Net debt/equity (x)	-0.5	-0.5	-0.6	-0.6	-0.5
Receivables (days)	75	69	72	73	74
Inventory (days)					
Payables (days)	25	20	23	21	19
CFO:PAT%	61	169	112	88	85
FCF:PAT% - includ M&A payout	47	152	108	75	73

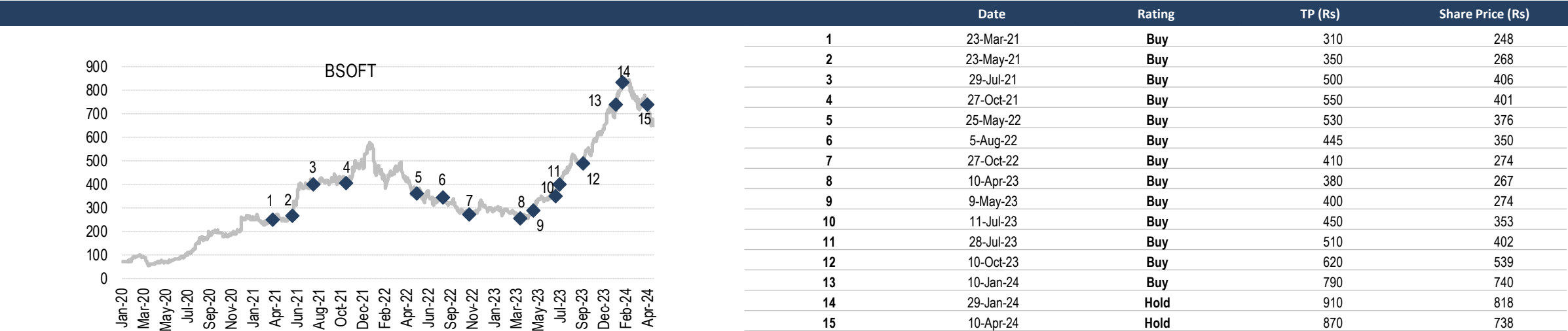
Source: Company, Anand Rathi Research

Appendix

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