



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		↔	

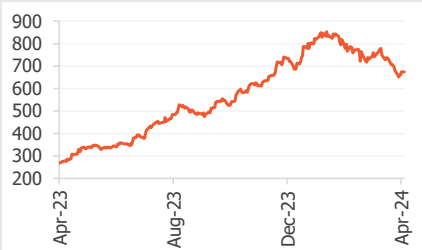
Company details

Market cap:	Rs. 18,615 cr
52-week high/low:	Rs. 862/272
NSE volume: (No of shares)	20.4 lakh
BSE code:	532400
NSE code:	BSOFT
Free float: (No of shares)	16.3 cr

Shareholding (%)

Promoters	41
FII	23
DII	19
Others	17

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.1	-19.0	24.4	147.2
Relative to Sensex	-10.5	-22.8	7.3	125.0

Sharekhan Research, Bloomberg

Birlasoft Ltd

Mixed Quarter; Maintain Buy

IT & ITes

Sharekhan code: BSOFT

Reco/View: Buy

CMP: Rs. 675

Price Target: Rs. 820



Upgrade



Maintain



Downgrade

Summary

- Reported revenue stood at \$163.9 million, up 1.6% q-o-q/9.6% y-o-y in constant currency (cc) terms, slightly missing our estimates of \$164.2 million driven by BFSI, E&U and manufacturing verticals.
- EBITDA margin improved ~30 bps q-o-q to 16.3%, beating our estimates of 16.1%. Deal wins TCV were strong at \$240 million, up 14% q-o-q with 55% being new deals.
- Company stated that they would aim for industry leading growth in FY25. Margins are expected to be in narrow band owing to investments in capabilities.
- We have cut our estimates for FY25/26E by ~5%/10%, owing to lower margins estimates. We maintain a Buy on Birlasoft with revised price target (PT) of Rs. 820 (28x FY26 EPS). At CMP, the stock trades at 27.3/23x its FY25/26E EPS.

Birlasoft's reported revenue of \$163.9 million, up 1.6% q-o-q/9.6% y-o-y in constant currency (cc) terms, slightly missing our estimates of \$164.2 million. Growth was led by the BFSI, E&U and Manufacturing among verticals which grew 4.4%/4% and 3.6% q-o-q. For FY24, reported revenue stood at \$ 637.2 million, up 7.1% y-o-y while Revenue in rupee terms stood at Rs 5,278 crore, up 10.1% y-o-y. EBITDA margin rose ~ 30 bps q-o-q to 16.3%, beating our estimates of 16.1% owing to lower employee benefit expenses, partially offset by higher operating expenses. Deal wins TCV were strong at \$240 million, up 14% q-o-q/ down 6% y-o-y with 55% being new deals. LTM Attrition moderated by 20 bps q-o-q to 12.4%. Net headcount additions were 239 taking the total headcount to 12,595. Utilisation fell 80 bps q-o-q to 86.3% from 87.1% in Q3FY24. The company is aiming for industry leading growth in FY25 but expects margins to be in the narrow band as they continue to invest in building capabilities. We believe the company is well placed to deliver industry leading growth in the medium term owing to increasing traction in ERP and Infra business, the robust deal pipeline and deal ramp-ups. We expect sales/PAT CAGR of ~13.1%/13.7% over FY24-26E. We have cut our estimates for FY25/26E by ~5%/10%, owing to lower margins estimates. We maintain Buy on Birlasoft with revised price target (PT) of Rs. 820. At CMP, the stock trades at 27.3/23x its FY25/26E EPS.

Key positives

- EBIT margins rose by 30 bps q-o-q to 16.3%.
- Deal wins TCV were strong at \$240 million, up 14% q-o-q with 55% being new deals.
- LTM Attrition moderated 20 bps q-o-q to 12.4%.

Key negatives

- Utilisation fell by 80 bps q-o-q to 86.3%.

Management Commentary

- Company stated they would aim for industry leading growth in FY25.
- The management stated that their margins would be in the narrow band as they continue to invest in building capabilities.
- Demand environment has been quite challenging and marked with a lot of uncertainty and it does not expect the situation to change going forward. Decision making has become slower.

Revision in estimates – We have revised our earnings estimates to factor Q4FY24 performance and outlook for FY25

Our Call

Valuation: Maintain Buy with a revised PT of Rs 820: Birlasoft delivered healthy performance which came after two consecutive strong quarters. The company is continuing to invest in building capabilities which would keep the margin in a narrow band in the medium term. We believe the company is well-placed to deliver industry leading growth owing to increasing traction in ERP and Infra business, the robust deal pipeline and deal ramp ups. We expect Sales/PAT CAGR of 13.1%/13.7% over FY24-26E. We have cut our estimates for FY25/26E by ~5%/10%, owing to lower margins estimates. We maintain Buy on Birlasoft with revised price target (PT) of Rs. 820. At CMP, the stock trades at 27.3/23x its FY25/26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. Contagion effect of banking crisis, macro headwinds and recession can moderate the pace of technology spending.

Valuation

Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,130.4	4,794.8	5,278.1	5,888.7	6,747.8
OPM (%)	15.5	10.9	15.8	16.3	16.5
Adjusted PAT	463.6	482.5	623.8	681.1	806.6
% YoY growth	44.5	4.1	29.3	9.2	18.4
Adjusted EPS (Rs.)	16.4	11.9	22.3	24.7	29.3
P/E (x)	41.1	56.6	30.3	27.3	23.0
P/B (x)	3.1	3.2	2.6	2.2	1.9
EV/EBITDA (x)	10.7	13.3	7.8	6.4	5.2
RoNW (%)	19.5	19.2	22.7	20.7	21.1
RoCE (%)	22.0	16.6	26.1	25.3	25.7

Source: Company; Sharekhan estimates

Key result highlights

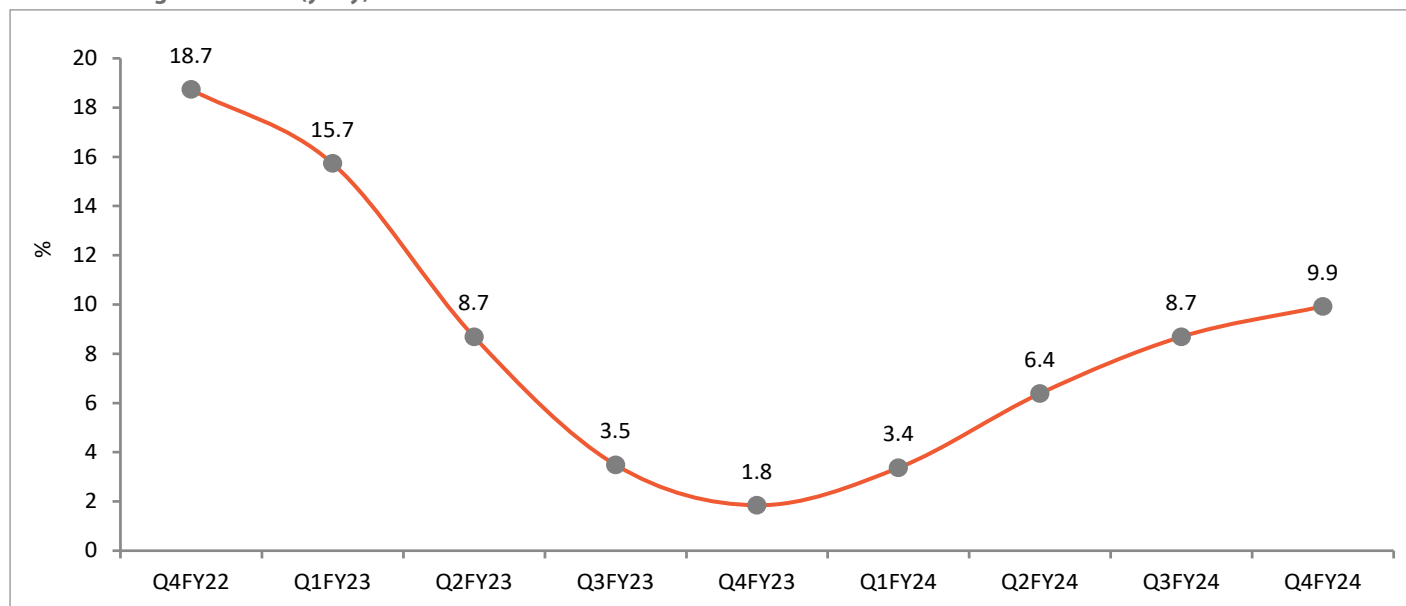
- ♦ **Revenue growth:** Birlasoft reported revenue of \$163.9 million, up 1.6% q-o-q/9.6% y-o-y in constant currency (cc), slightly missing our estimates of 1.7% q-o-q in cc terms. Growth during the quarter was led by ERP and Infrastructure among service lines and by BFSI, E&U and Manufacturing among verticals. For FY24, reported revenues stood at \$ 637.2 million, up 7.1% up 7.1% y-o-y while Revenue in rupee terms stood at Rs 5,278 crore, up 10.1% y-o-y.
- ♦ **Vertical-wise performance:** Growth during the quarter was led by ERP and Infrastructure among service lines which grew 7.6%/6.1% q-o-q respectively and by BFSI, E&U and Manufacturing among verticals which grew 4.4%/4% and 3.6% q-o-q, respectively.
- ♦ **EBITDA margin:** EBITDA margin improved ~ 30 bps q-o-q to 16.3%, beating our estimates of 16.1% on account owing to lower employee benefit expenses partially offset by higher operating expenses. Margin expansion was achieved despite all the ongoing investments as well as a sequential drop in both utilisation and offshore revenues as some of the projects got over. EBITDA Margin increased to 15.8% in FY24.
- ♦ **Deal signings:** Deal wins TCV were strong at \$240 million, up 14% q-o-q/ down 6% y-o-y with 55% being new deals.
- ♦ **Top Accounts:** Revenues from Top 5, Top 10 and Top 20 clients grew by 15.6%, 17.4% and 11.3%, y-o-y respectively. The number of active clients declined by 13 to 259 clients reflecting sustained rationalisation of the tail.
- ♦ **Attrition & Utilization:** LTM Attrition moderated 20 bps q-o-q to 12.4%. The quarter witnessed strong net headcount additions of 239 employees. Utilisation fell 80 bps q-o-q to 86.3% from 87.1% in Q3FY24.
- ♦ **Cash balance:** Cash & cash equivalents increased to Rs. 1744.7 crore, up ~3% q-o-q. DSO increased to 55 from 51.

Results

	Rs cr				
Particulars	Q4FY24	Q4FY23	Q3FY24	YoY %	QoQ %
Revenues (\$ mn)	163.9	149.1	161.3	9.9	1.6
Net sales	1,362.5	1,226.4	1,343.0	11.1	1.5
Employee benefit expenses	767.9	729.4	793.4	5.3	-3.2
Gross Profit	594.6	497.0	549.5	19.6	8.2
Operating expenses	372.9	330.0	335.2	13.0	11.3
EBITDA	221.7	167.0	214.3	32.8	3.4
Depreciation	21.1	21.0	21.1	0.6	0.2
EBIT	200.6	146.0	193.2	37.4	3.8
Other income	45.7	(2.3)	28.2	-2080.0	62.3
Finance cost	4.1	4.0	6.0	2.8	-31.4
PBT	242.2	139.7	215.4	73.4	12.4
Tax provision	62.1	27.6	54.4	125.5	14.2
Net profit	180.1	112.2	161.1	60.5	11.8
EPS (Rs)	6.5	4.0	5.7	62.6	14.1
Margin (%)					
EBITDA	16.3	13.6	16.0	265	31
EBIT	14.7	11.9	14.4	282	33
NPM	13.2	9.1	12.0	407	122

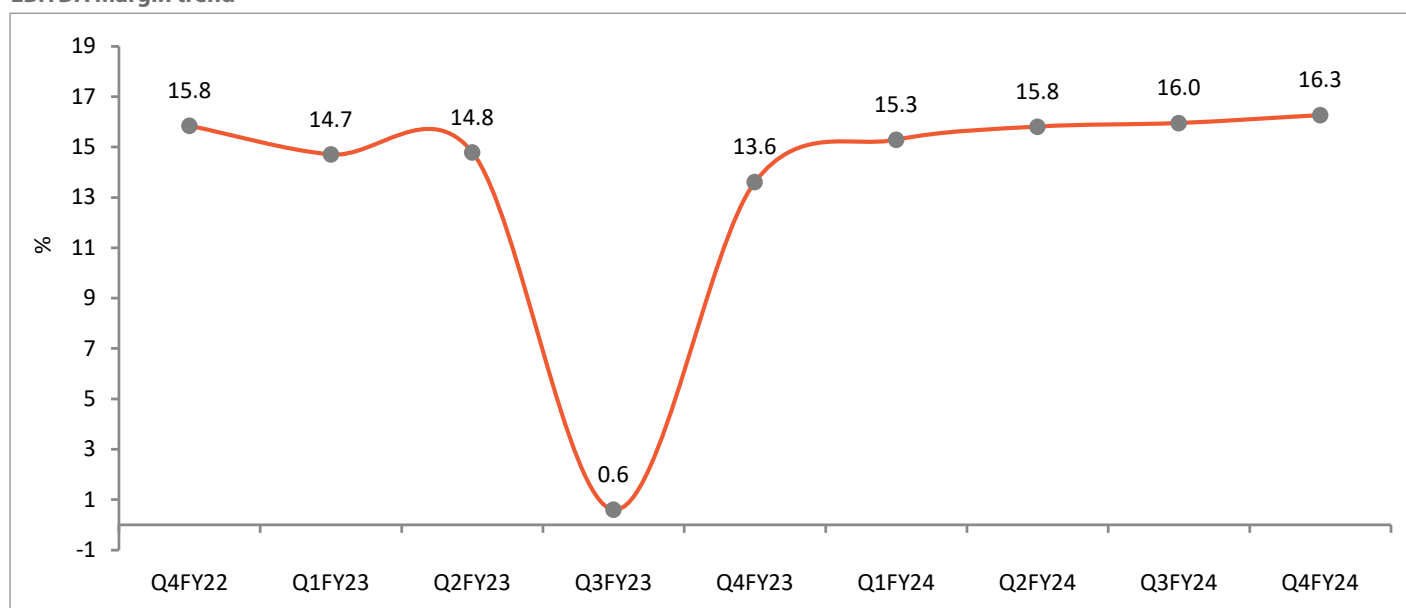
Source: Company, Sharekhan Research

USD revenue growth trend (y-o-y)



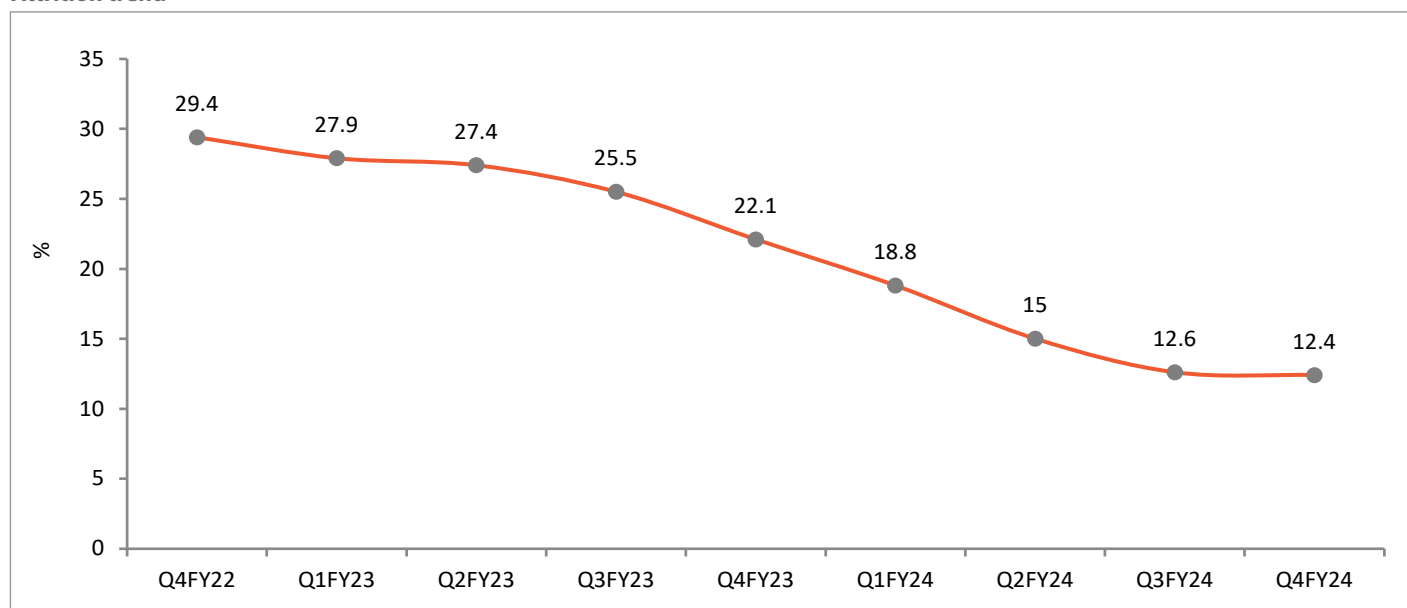
Source: Company, Sharekhan Research

EBITDA margin trend



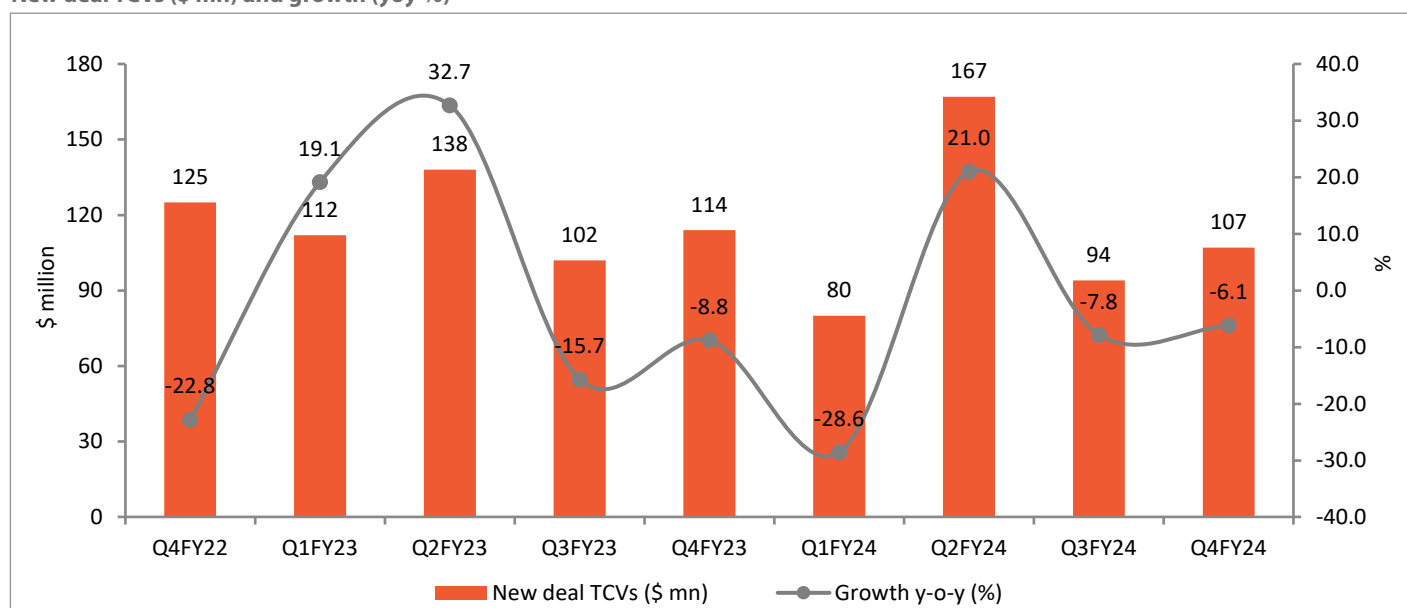
Source: Company, Sharekhan Research

Attrition trend



Source: Company, Sharekhan Research

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



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Macro headwinds bottoming out coupled with better earnings visibility

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though the IT sector has already outperformed 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

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 FY2025 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 820

Birlasoft delivered healthy performance which came after two consecutive strong quarters. The company is continuing to invest in building capabilities which would keep the margin in a narrow band in the medium term. We believe the company is well-placed to deliver industry leading growth owing to increasing traction in ERP and Infra business, the robust deal pipeline and deal ramp ups. We expect Sales/PAT CAGR of 13.1%/13.7% over FY24-26E. We have cut our estimates for FY25/26E by ~5%/10%, owing to lower margins estimates. We maintain Buy on Birlasoft with revised price target (PT) of Rs. 820. At CMP, the stock trades at 27.3/23x 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 which can 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	Chief Financial Officer
Roop Singh	CEO Americas
Arun Dinakar Rao	Chief People Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BlackRock Inc	5.01
2	Axis Asset Management Co Ltd/India	4.59
3	L&T Mutual Fund Trustee Ltd/India	2.78
4	Vanguard Group Inc/The	2.23
5	BNP Paribas SA	2.06
6	Central India Industries Ltd	1.87
7	Dimensional Fund Advisors LP	1.46
8	MAX LIFE INSURANCE CO LTD	1.39
9	Tata Asset Management Pvt Ltd	1.2
10	Nippon Life India Asset Management	1.06

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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