

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	✗	↔	✗

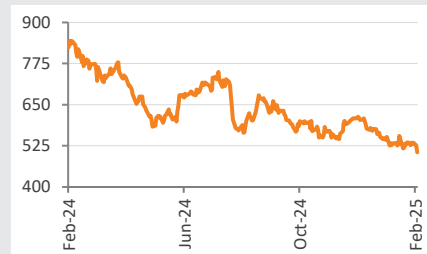
Company details

Market cap:	Rs. 13,960 cr
52-week high/low:	Rs. 855 / 503
NSE volume: (No of shares)	25.0 lakh
BSE code:	532400
NSE code:	BSOFT
Free float: (No of shares)	16.4 cr

Shareholding (%)

Promoters	41
FII	11
DII	25
Others	24

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-8.5	-11.5	-12.5	-38.8
Relative to Sensex	-7.1	-7.4	-8.3	-46.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Birlasoft Ltd

Higher than usual furloughs mars Q3

IT & ITes	Sharekhan code: BSOFT		
Reco/View: Buy	↔	CMP: Rs. 505	Price Target: Rs. 600
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Birlasoft reported revenue at \$160.8 million, down 1.1% q-o-q/0.1% y-o-y, in constant currency (CC) terms, missing our estimate of \$164.3 million.
- EBITDA margin fell ~10 bps q-o-q to 12%, beating our estimate of 10.6%. The company signed TCV deals of \$226 million, up 66%q-o-q/4% y-o-y.
- The company expects two headwinds in Q4, which include Healthcare furloughs extending into January and some project rundowns in Healthcare and Manufacturing.
- We maintain BUY with revised PT of Rs. 600 (valued at 22x FY27E EPS). At CMP, the stock trades at 27.5/22.6/18.6x its FY25/26/27E EPS.

Birlasoft reported revenue of \$160.8 million, down 1.1% q-o-q/0.1% y-o-y, in constant currency (CC) terms, missing our estimate of \$164.3 million. Revenue in rupee terms stood at Rs. 1362.7 crore, down 0.4% q-o-q/ up 1.5% y-o-y. Revenue was impacted by weak seasonality and higher-than-usual furloughs. EBITDA margin fell ~10 bps q-o-q to 12%, beating our estimate of 10.6%. The company was able to deliver steady margin performance despite absorbing the wage hike. Net profit stood at Rs. 116.9 crore, down 8.3% q-o-q/27.4% y-o-y. The company signed TCV deals of \$226 million, up 66% q-o-q/4% y-o-y, out of which new deal TCV stood at \$64 million, down 28% q-o-q/32% y-o-y. Net headcount declined by 453, taking the total to 12,125. LTM attrition increased to 12.7%, up 90 bps q-o-q. The company expects two headwinds in Q4, which include healthcare furloughs extending into January and some project rundowns in healthcare and manufacturing. The deal pipeline remains healthy and the company's investments in bridging capability gaps and scaling existing capabilities would aid the company in augmenting deal signings and new logos. We roll forward to FY27E and maintain BUY with a revised price target (PT) of Rs. 600 (valued at 22x FY27E EPS). At CMP, the stock trades at 27.5/22.6/18.6x its FY25/26/27E EPS.

Key positives

- Deal wins TCV stood at \$226 million, up 66% q-o-q/4% y-o-y.
- BFSI vertical grew 2.3% q-o-q/17.1% y-o-y.

Key negatives

- Net headcount declined by 453, taking the total to 12,125.
- LTM attrition increased to 12.7%, up 90 bps q-o-q.

Management Commentary

- Management is seeing some early signs of improvement in certain pockets such as BFSI.
- The company witnessed higher-than-usual furloughs and in some cases the furloughs are extending into January.
- The company achieved its best quarter for deal signings this fiscal year with \$226 million in TCV, driven by renewals and some new deals, and expects strong Q4 deal signings.
- Although Financial services and discretionary spends show signs of improvement, overall demand remains uncertain as clients maintain a hold-and-wait approach, especially in sectors like Life Sciences that are sensitive to policy changes.
- Management indicated some project ramp-downs during the quarter, which might have a near-term impact on revenue.
- The company expects two headwinds in Q4, which include healthcare furloughs extending into January and some project rundowns in Healthcare and Manufacturing.
- The company still aspires for margin improvement, however, the path to achieving that goal may be slower than previously anticipated due to Q4 headwinds.

Revision in earnings estimates – We have revised our earnings estimates to factor in Q3FY25 performance.

Our Call

Valuation – Maintain BUY with revised PT of Rs. 600: Birlasoft reported a soft quarter, impacted by seasonality and higher-than-expected furloughs. However, the company managed to hold the margins steady, even after absorbing the wage hike and despite higher-than-usual furloughs. The strong deal signings during Q3 with similar expectations for Q4 are uplifting. The deal pipeline remains healthy and the company's investments in bridging capability gaps and scaling existing capabilities would aid the company in augmenting deal signings and new logos. We roll forward to FY27E and maintain BUY with a revised PT of Rs. 600 (valued at 22x its FY2027E EPS). At the CMP, the stock trades at 27.5x/22.6x/18.6x its FY25/26/27E 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 (Consolidated)

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	5,278.1	5,434.3	5,885.0	6,531.8
OPM (%)	15.8	12.8	13.4	14.4
Adjusted PAT	623.8	518.4	628.6	764.1
YoY growth (%)	29.3	(16.9)	21.3	21.6
Adjusted EPS (Rs.)	22.3	18.4	22.3	27.1
P/E (x)	22.7	27.5	22.6	18.6
P/B (x)	6.1	5.5	4.8	4.2
EV/EBIDTA (x)	20.7	24.3	21.0	17.2
RoNW (%)	22.7	16.1	17.3	18.5
RoCE (%)	26.1	17.8	18.3	19.6

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

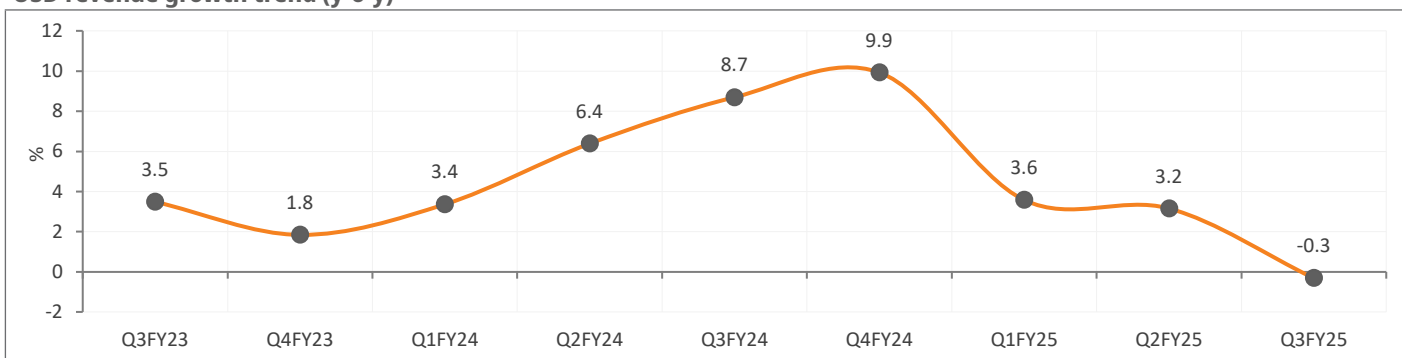
- ♦ **Revenue growth:** Birlasoft reported revenue of \$160.8 million, down 1.1% q-o-q/0.1% y-o-y, in CC terms, missing our estimate of \$164.3million. Revenue in rupee terms stood at Rs. 1,362.7 crore, down 0.4% q-o-q/1.5% y-o-y. Revenue was impacted by higher-than-usual furloughs.
- ♦ **EBITDA margin:** EBITDA margin fell ~10 bps q-o-q to 12.1%, beating our estimate of 10.6%. The company was able to deliver steady margin performance despite absorbing the wage hike.
- ♦ **Vertical-wise performance:** Manufacturing, Lifesciences & Services and Energy & Utilities declined 1.3%/4.4%/and 4% q-o-q, respectively, while BFSI was up 2.3% q-o-q.
- ♦ **Deal signings:** Birlasoft signed TCV deals of \$226 million, up 66%q-o-q/4% y-o-y, out of which new deal wins TCV stood at \$64 million, down 28% q-o-q/32% y-o-y. Renewal deal wins stood at \$162 million, up 245% q-o-q/31% y-o-y.
- ♦ **Top accounts:** Revenue from Top 5, Top 10, and Top 20 clients declined by 0.7%, 2.1%, and 1.4% y-o-y, respectively. The number of active clients improved by 4 q-o-q to 265 clients.
- ♦ **Attrition and utilisation:** Net headcount declined by 453 during the quarter, taking the total headcount to 12,125. LTM attrition jumped 90 bps q-o-q to 12.7%, while utilisation fell 20 bps q-o-q to 81.8%.
- ♦ **Cash balance:** Cash and cash equivalents increased to Rs. 2,055.2 crore, up 21.7% y-o-y. Days Sales Outstanding (DSO) improved to 53 days in Q3FY25 compared to 58 days in Q2FY25.

Results (Consolidated)

Particulars	Q3FY25	Q3FY24	Q2FY25	Y-o-Y (%)	Rs cr Q-o-Q (%)
Revenue (USD mn)	160.8	161.3	163.3	-0.3	-1.5
Net sales	1,362.7	1,343.0	1,368.2	1.5	-0.4
Employee benefit expenses	832.9	793.4	829.6	5.0	0.4
Gross Profit	529.8	549.5	538.6	-3.6	-1.6
Operating expenses	343.8	335.2	344.2	2.6	-0.1
S&M and other expenses	22.6	-	29.0		
EBITDA	163.4	214.3	165.4	-23.7	-1.2
Depreciation	21.3	21.1	22.2	1.0	-4.4
EBIT	142.2	193.2	143.2	-26.4	-0.7
Other income	20.8	28.2	33.4	-26.2	-37.7
Finance cost	6.9	6.0	6.8	16.8	2.4
PBT	156.0	215.4	169.7	-27.6	-8.1
Tax provision	39.0	54.4	42.2	-28.2	-7.4
Net profit	116.9	161.1	127.6	-27.4	-8.3
EPS (Rs.)	4.2	5.7	4.5	-27.6	-8.1
Margin (%)					
EBITDA	12.0	16.0	12.1	-396	-10
EBIT	10.4	14.4	10.5	-396	-3
NPM	8.6	12.0	9.3	-341	-74

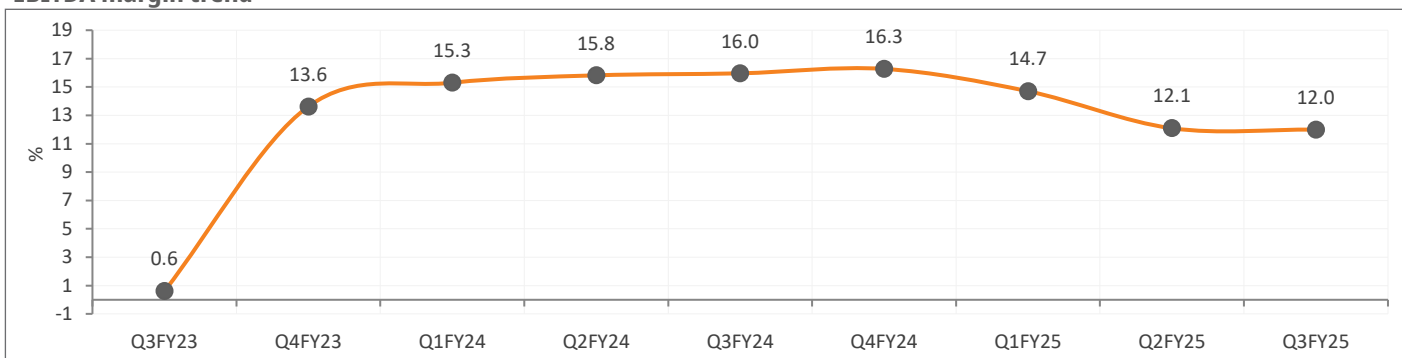
Source: Company; Mirae Asset Sharekhan Research

USD revenue growth trend (y-o-y)



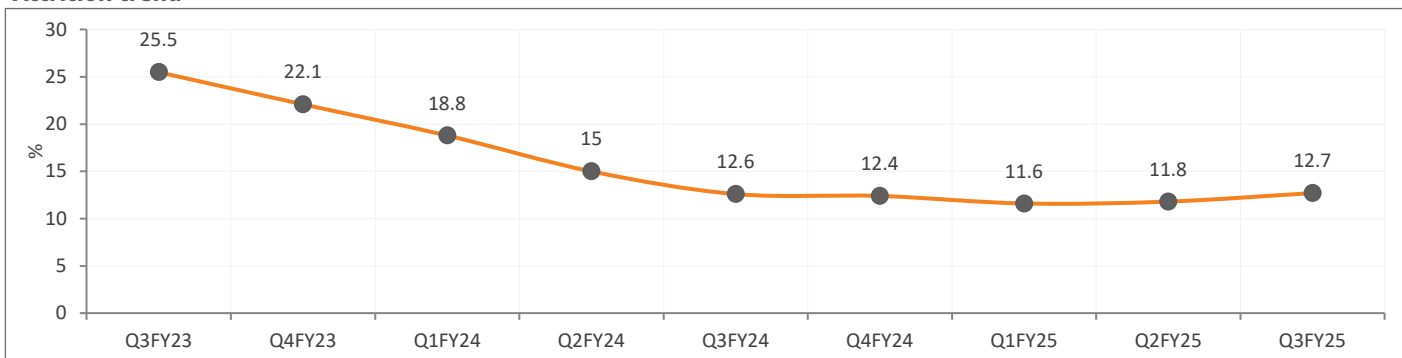
Source: Company; Mirae Asset Sharekhan Research

EBITDA margin trend



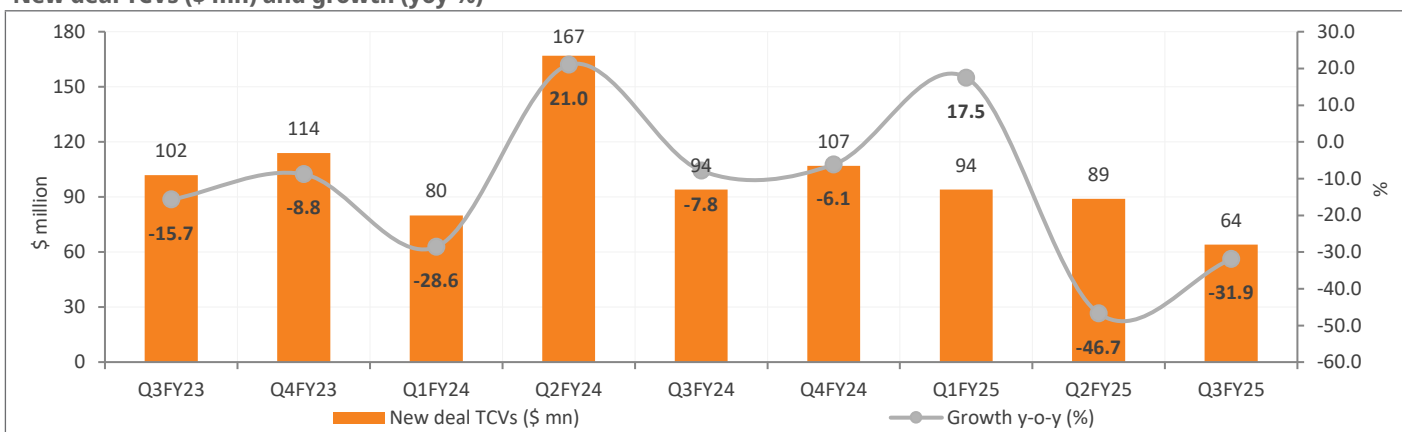
Source: Company; Mirae Asset Sharekhan Research

Attrition trend



Source: Company; Mirae Asset Sharekhan Research

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



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

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

We anticipate growth momentum to return in FY2025, aided by lower base coupled with easing sector headwinds. Though the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY25 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. The company expects two headwinds in Q4, which include healthcare furloughs extending into January and some project rundowns in Healthcare and Manufacturing. The company still aspires for margin improvement, however, the path to achieving that goal may be slower than previously anticipated due to Q4 headwinds.

■ Valuation – Maintain BUY with a revised PT of Rs. 600:

Birlasoft reported a soft quarter, impacted by seasonality and higher-than-expected furloughs. However, the company managed to hold the margins steady, even after absorbing the wage hike and despite higher-than-usual furloughs. The strong deal signings during Q3 with similar expectations for Q4 are uplifting. The deal pipeline remains healthy and the company's investments in bridging capability gaps and scaling existing capabilities would aid the company in augmenting deal signings and new logos. We roll forward to FY27E and maintain BUY with a revised PT of Rs. 600 (valued at 22x its FY2027E EPS). At the CMP, the stock trades at 27.5x/22.6x/18.6x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset 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 USD450 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

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

Additional Data

Key management personnel

Name	Designation
Amita Birla	Chairman and non-executive Director
Angan Guha	CEO and MD
Kamini Shah	Chief Financial Officer
Arun Dinakar Rao	Chief People Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co	8.10
2	Blackrock Inc	4.99
3	HDFC Asset Management Co Ltd	4.39
4	FundRock Management Co SA	4.37
5	Vanguard Group Inc/The	2.25
6	Central India Industries Ltd	1.86
7	ICICI Prudential Asset Management	1.62
8	Tata Asset Management Pvt Ltd	1.42
9	Dimensional Fund Advisors LP	1.39
10	IDFC Mutual Fund/India	1.16

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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