

June 28, 2024

## Steady progression with focus on execution capability...

**About the stock:** Birlasoft Limited (Birlasoft), is the global technology services division of the CK Birla Group. It merged with KPIT's IT Services business in 2019.

- It caters to four verticals - Manufacturing (41%), BFSI (21%), Energy & Utilities (E&U) (14%) and Lifesciences (24%);
- It has delivered good profit growth of 29.1% CAGR over FY2020-24.

### Investment Rationale

- **Strong medium to long-term growth potential:** The new CEO, Mr. Angan Guha's initiatives such as hiring for senior leadership roles to drive growth in and out of US like in RoW and Europe, rationalizing its tail accounts (active clients down to 259 in Q4FY24 vs 288 in Q4FY23) and reallocate resources towards high-potential clients and targeting marquee logos are setting the stage for the industry-leading growth quadrant by FY25. While a good part of margin benefits will be invested in its capabilities and domain capacity a steady EBITDA margin expansion from 15.8% in FY24 to 17% in FY26, is expected mainly led by lower attrition, higher utilization and pyramid.
- **Diversified and resilient service portfolio:** ERP and Infra Services, which comprise over 40% of the company's revenue, has shown strong performance in SAP Cloud and Oracle Cloud, offering competitive advantages and driving growth outperformance. The company has a robust and scalable portfolio of offerings across all four verticals which has helped Birlasoft to expand its margins despite a sequential drop in both utilization (by 80 bps to 86.3% in Q4) and offshore revenues (~2%) as some of its projects got over.
- **Strategic Client Engagement and Deal Wins to sustain growth:** Birlasoft's strategy to deepen relationships with existing large accounts and its vertical sales structure are expected to drive revenue growth through enhanced client mining and cross-selling. The company aims to secure at least one large deal (>US\$50 mn) annually and increase its pipeline from US\$1.8 billion to US\$2.4 billion. This coupled with significant recent wins like the US\$100 mn deal in Q2FY24 which is expected to ramp up in Q1FY25, highlights its capability to capture substantial market opportunities for sustained growth.

### Rating and Target Price

- Birlasoft's long-term prospects remain positive, positioning the company for sustained growth. **We believe that the company's dollar revenue will grow at CAGR of 12.9% between FY24-26E. Consequently, PAT to grow at CAGR of 18.3% over FY24-26E.**
- We assign **BUY** rating on the stock. We value it at **target price of ₹ 840; at 27x P/E on FY26E EPS.**



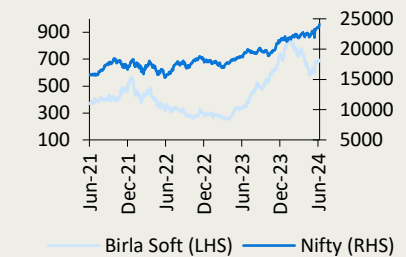
### Particulars

Particular	Amount
Market Cap (₹ Crore)	19,237
Total Debt	-
Cash & Inv (₹ Crore)	1,459
EV (₹ Crore)	17,778
52 week H/L	861/ 344
Equity capital	55.2
Face value	2.0

### Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	41.0	41.0	40.9	40.9
FII	11.3	17.6	21.2	23.5
DII	24.5	22.4	20.2	18.6
Others	23.2	19.1	17.6	17.0

### Price Chart



### Key risks

- Lower than expected revenue growth
- Unforeseen delay in deal ramp-up in FY25 due to slow decision making amid tough macroeconomic conditions

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### Key Financial Summary

₹ Crore	FY22	FY23	FY24	5 Year CAGR (FY19-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Net Sales	4,130.4	4,794.8	5,278.1	16%	5,905.4	6,785.0	13%
EBITDA	640.1	520.5	836.2	22%	952.6	1,152.8	17%
EBITDA Margins (%)	15.5	10.9	15.8		16.1	17.0	
Net Profit	463.6	331.6	623.8	18%	706.2	873.4	18%
EPS (₹)	16.3	11.9	22.3		25.1	31.0	
P/E	41.8	58.0	30.9		27.3	22.1	
RoNW (%)	17.9	13.5	20.5		19.7	20.4	
RoCE (%)	23.1	18.0	26.9		25.2	26.1	

## Key takeaways from recent quarter

### Q4FY24 results key takeaways:

- **TCV & Pipeline:** The company recorded TCV of US\$240 mn including new TCV wins of US\$107 mn during the quarter and it has a healthy pipeline of US\$1.8 billion. **The management aims to strengthen the order book by expanding the current pipeline from US\$1.8 billion to US\$2.4 -2.5 billion, with a focus on accelerating net new business.**
- **Vertical and geography performance:** Vertical wise the growth was led by BFSI followed by Energy & Utilities and Manufacturing while Lifesciences was a laggard owing to seasonality and is likely to recover only in H2FY25. Geography wise Americas region (86.5% of mix) grew by 2.6% QoQ while ROW (13.5% of mix) declined by 4.1%. The company plans to get more global and expand outside of US. The focus is going to be in the UK, Switzerland, Germany and India regions.
- **M&A:** The management citing strong operating cash flow (~85% of EBITDA), is now open for acquisitions not just for revenue accretion but which add value to their domain/capability and are at least margin equal if not accretive.

### Q4FY24 Earnings Conference Call Highlights:

- **Revenue Performance:** In Q4FY24, Birlasoft's revenue grew by 1.6% QoQ to US\$163.9 mn both in reported currency and CC terms. In rupee terms the company reported revenue of ₹ 1,362 crore, up 1.5% QoQ. For FY24, the company reported revenue of US\$637.1 mn, up 7.1%. The company's revenue from Top 5/10 clients grew by 4.3%/1.8% respectively.
- **Margin Performance:** The company reported EBITDA margin of 16.3%, up 30 bps QoQ while the PAT margin stood at 13.2%, up 122 bps QoQ. For FY24 the company reported EBITDA margin of 15.8% (including the impact of one-time provision of US\$ 19mn), up 500 bps while the PAT margin stood at 11.8%, up 490 bps YoY. This margin expansion was achieved on the back of the ongoing Optimus tech transformation initiative.
- **Lifesciences vertical:** The management acknowledged temporary softness in the vertical but reassured investors about the underlying strength of the business. The company anticipates recovery driven by seasonal factors and improving pipeline. Three new logos are expected to contribute to revenues in the next three to four quarters.
- **GenAI:** The company's GenAI platform **Cogito** is supported by a partnership with Microsoft and it represents a strategic investment in cutting-edge technology, enhancing Birlasoft's market position in AI and analytics.
- **Project Optimus:** The project is a two to three-year program where AI and GenAI technologies will be used to automate processes within the company, reduce the number of processes, and make a more technology-enabled organization. This shall result in improved profitability.
- **Attrition and utilisation:** LTM attrition declined by 20 bps QoQ to 12.4% while utilization declined by 80 bps QoQ to 86.3%.
- **Margin Guidance/Aspiration:** The company is continuing to invest in building capabilities which would keep the margin in a narrow band in the medium term (i.e., in the next two to three years). However, the company expects higher margins in the long term, once the revenues hit the US\$1 billion mark.

## Financial Summary

Exhibit 1: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
<b>Total operating Income</b>	<b>4,795</b>	<b>5,278</b>	<b>5,905</b>	<b>6,785</b>	
Growth (%)	16.1	10.1	11.9	14.9	
COGS (employee expense)	2,813	3,048	3,417	3,884	
Other expenses	1,461	1,394	1,535	1,748	
Total Operating Expenditu	4,274	4,442	4,953	5,632	
<b>EBITDA</b>	<b>520</b>	<b>836</b>	<b>953</b>	<b>1,153</b>	
Growth (%)	(18.7)	60.7	13.9	21.0	
Depreciation	82	85	88	88	
Other income (net)	4	84	65	87	
PBT	442	835	929	1,152	
Total Tax	111	211	223	277	
<b>PAT</b>	<b>332</b>	<b>624</b>	<b>706</b>	<b>876</b>	
Growth (%)	(28.5)	88.1	13.2	24.0	
<b>Diluted EPS (₹)</b>	<b>11.9</b>	<b>22.3</b>	<b>25.1</b>	<b>31.1</b>	
Growth (%)	(27.0)	86.7	12.6	24.0	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit before Tax	332	835	929	1,149	
Add: Depreciation	82	85	88	88	
Others	248	52	(65)	(84)	
Inc/(dec) in working capital	(80)	(73)	(106)	(170)	
Taxes paid	(131)	(181)	(223)	(276)	
<b>CF from operating activiti</b>	<b>561</b>	<b>718</b>	<b>624</b>	<b>707</b>	
(Inc)/dec in Fixed Assets	(58)	(26)	(123)	(141)	
Others	309	(601)	73	93	
<b>CF from investing activiti</b>	<b>252</b>	<b>(627)</b>	<b>(50)</b>	<b>(48)</b>	
Dividend paid & dividend	(125)	(124)	(169)	(169)	
Others	(511)	(44)	(8)	(8)	
<b>CF from financing activiti</b>	<b>(636)</b>	<b>(168)</b>	<b>(177)</b>	<b>(177)</b>	
Net Cash flow	176	(76)	397	481	
Exchange difference	(0)	2	-	-	
Opening Cash	383	499	425	821	
<b>Closing cash &amp; Bank</b>	<b>553</b>	<b>425</b>	<b>821</b>	<b>1,303</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	55	55	55	55	
Reserve and Surplus	2,393	2,989	3,526	4,230	
Total Shareholders funds	2,448	3,044	3,581	4,285	
Total Debt	-	-	-	-	
Lease liability	66	58	58	58	
Provisions	49	71	80	92	
Other non current liabilities	-	7	7	7	
<b>Total Liabilities</b>	<b>2,563</b>	<b>3,180</b>	<b>3,725</b>	<b>4,442</b>	
<b>Assets</b>					
Property, plant and equipr	142	105	166	245	
Goodwill	490	496	496	496	
Intangibles	14	9	9	9	
Right-of-use assets	90	87	61	34	
Other non current assets	282	461	504	587	
Cash & bank balance	553	425	821	1,303	
Current Investments	489	1,034	1,034	1,034	
Trade receivables	732	768	859	987	
Unbilled revenue	176	269	301	346	
Other financial assets	6	3	3	4	
Other current assets	214	269	301	346	
Total Current Assets	2,170	2,767	3,320	4,019	
Trade payables	231	281	314	361	
Lease liability	36	35	35	35	
OCL & provisions	357	430	481	553	
Total Current Liabilities	624	746	830	949	
Net Current Assets	1,546	2,022	2,489	3,070	
<b>Application of Funds</b>	<b>2,563</b>	<b>3,180</b>	<b>3,725</b>	<b>4,441</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Diluted EPS	11.9	22.3	25.1	31.0
Cash EPS	14.9	25.5	28.6	34.6
BV	88	110	129	154
DPS	4.5	4.5	6.1	6.1
Cash Per Share	20	15	30	47
<b>Operating Ratios (%)</b>				
EBITDA margin	10.9	15.8	16.1	17.0
PBT Margin	9.2	15.8	15.7	16.9
PAT Margin	6.9	11.8	12.0	12.9
Debtor days	56	53	53	53
Unbilled days	13	19	19	19
Creditor days	18	19	19	19
<b>Return Ratios (%)</b>				
RoE	13.5	20.5	19.7	20.4
RoCE	18.0	26.9	25.2	26.1
RoIC	28.9	43.9	46.5	50.9
<b>Valuation Ratios (x)</b>				
P/E	58.0	30.9	27.3	22.1
EV / EBITDA	35.0	21.3	18.2	14.7
EV / Net Sales	3.8	3.4	2.9	2.5
Market Cap / Sales	4.0	3.6	3.3	2.8
Price to Book Value	7.9	6.3	5.4	4.5
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	1.8	1.8	1.8	1.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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