

CMP: INR 430

Outlook: Positive

Stock Info

BSE	532400
NSE	BSOFT
Bloomberg	BSOFT.IN
Reuters	KPIT.BO
Sector	IT Software
Face Value (INR)	2
Equity Capital (INR Mn)	555
Mkt Cap (INR Mn)	119,940
52w H/L (INR)	458/ 173
Avg Yearly Vol (in 000')	25

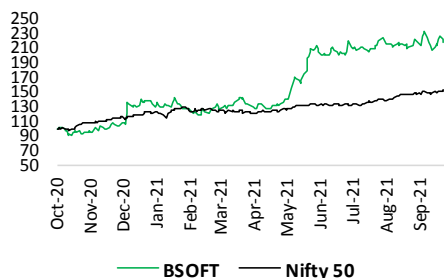
Shareholding Pattern %

(As on Sep, 2021)

Promoters	40.66
Public & Others	59.34

Stock Performance (%)	1m	3m	12m
BSOFT	6.0	10.9	116.8
Nifty	5.3	15.4	52.8

BSOFT Vs Nifty



Birlasoft combines the power of domain, enterprise, and digital technologies to reimagine business processes for customers and their ecosystem. Its consultative and design thinking approach makes societies more productive by helping customers run businesses. As part of the multibillion-dollar diversified

CK Birla Group, Birlasoft with its 11,000+ professionals, is committed to continuing the Group's 159-year heritage of building sustainable communities.

Investment Rational:

Revenues and deal wins to drive growth: Birlasoft is aiming to achieve a target of US\$1 billion in revenues in the next 4 years (implying a CAGR of 20%). Birlasoft aims to achieve this through organic and inorganic revenues (US\$150-200 million). Higher spending on platform-based digital initiatives, Cloud adoption, and aggressive automation would be the company's growth driver in FY22.

The management also highlighted that its SAP and ERP pipeline in terms of both transformation and implementation side increased. Birlasoft has significantly improved its annuity revenues from 60% in FY20 to 70% in FY21.

Micro vertical strategy: BSOFT has identified medical devices (part of Life sciences), high tech (part of Manufacturing; growing at over 20%), heavy industries (Cement, Building Materials; part of Manufacturing), and lending and payment (part of BFSI) as key micro verticals to target on in order to accelerate growth.

Margin to improve: The company reported an improvement in margins backed by revenue growth, higher billing and lower bad debt partially balance by higher wage hikes and higher recruitment.

Going forward, there are margin headwinds led by higher employee cost, lower utilisation and reskilling of employees. Though the expenses would increase with opening of travel in H2FY22, management remains confident to maintain the margin level of Q1FY22 (i.e 16%) despite a 200 bps impact of wage revision, by optimizing the cost structure.

Deal Pipeline: BSOFT expects strong growth in deal ACV; however, TCV growth may remain even as the company is signing many digital transformation deals, which are by nature small in size.

Valuation & View:

We remains confident of accelerating revenue growth on the back of broad-based demand and increased traction in the areas of Cloud, Digital and Cybersecurity. We believe revenue growth of the Lifesciences vertical to recover from Q2. The deal pipeline remains robust. Management expects to sustain EBITDA Margin at the current level with an upward bias in FY22 as it anticipates headwinds stemming from wage hikes and investments in capability building and talent, which would be partially offset by revenue growth-led operating leverage, higher offshoring and other efficiencies.

At CMP of INR 430 per share, the company is trading at a PE (x) multiple of 19.8x its FY24E EPS of 21.67 (Bloomberg estimate) and at a significant discount, which is likely to trim down going forward as we believe Birlasoft has much better revenue visibility for the next 3-4 years as the management highlighted that its SAP and ERP pipeline in terms of both transformation and implementation side increased. We have a positive outlook on the stock, given the company is benefitting from its strong partnership with hyperscalers like AWS, Microsoft Azure and Google Cloud.

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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