

CMP: INR 342

Rating: Buy

Target Price: INR 429

Stock Info

BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Capital (INR mn)	559
Mkt Cap (INR mn)	9,58,599
52w H/L (INR)	586/ 37
Avg Yearly Vol (in 000')	3,034

Shareholding Pattern %

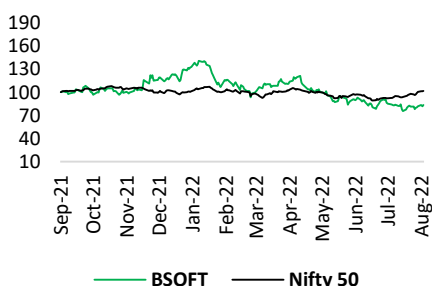
(As on June, 2022)

Promoters	40.32
FII	15.24
DII	21.12
Public & Others	23.32

Stock Performance (%)

	1m	3m	12m
Birlasoft	-2.0	-15.8	-13.1
Nifty 50	9.8	4.2	6.9

Birlasoft Vs Nifty 50



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Birlasoft(BSFOT) Ltd in Q1FY23, revenue above our estimates: Reported revenue of \$ 148.6 Mn (up 1.5% QoQ/15.7%YoY in USD terms) against our estimate of \$147.8 Mn. In Constant Currency (CC) terms revenue was up 17.7%YoY/2.3%QoQ. Reported revenue of INR 11,544 Mn up 4.8% QoQ/ 22.1% YoY against our estimate of INR 11,410 Mn. The growth has been led by top customers which continue to grow at a healthy pace. The company expertise in driving digital transformation for clients is driving good growth for Business and Technology Transformation services, which recorded a growth of 20.7% YoY.

Margin in-line with our estimates led by forex gain: EBIT margin was down 103bps QoQ/-102bpsYoY at 13% in-line our estimates of 12.71% due to high cost and Mid-junior level promotion. The company reported attrition in-line with industry Attrition (LTM) was 27.9% in Q1FY23 as against 29.4% in Q4FY22 drop of 150bps still remain elevated. We are expecting further drop in attrition which, will support margin going ahead.

Healthy TCV Deal wins: The company said it signed deals of total contract value (TCV) \$185 mn Q1FY23.TCS of new deal wins was \$112 mn and renewals amounted to \$73 mn for Q1 FY23. Active Client Count at 300 in Q1 FY23. Of this, count of more than \$1 mn' customers was 82 (up 5% YoY) and count of 'more than \$5 mn' customers was 25 (up 3% YoY). Revenue from Top 5, Top 10 and Top 20 clients grew YoY by 16.5%, 22.7% and 21%, respectively. If the company looks at its pipeline, it actually moved up significantly. At the end of the financial year, the company was at USD 1.2 Mn, the company is already touching USD 17 Mn.

Valuations

At a CMP of INR 342, Birlasoft is currently trading at a PE of 16x to its FY24E EPS of INR 21.4. The company, continue to maintain guidance of achieve US\$1bn revenue by 2025 and margins guidance >15%. The management reiterated IT demand outlook for the next 3 years looks healthy despite some of the recession challenges. However, the opportunity is multifold, especially in the digital, cloud eco-system which augurs well for the company. Considering the company's core competency on the backend, we believe it is in a sweet spot to consult clients on desired digital capabilities and handhold clients through their digital transformation journey in a cost-effective manner. **We value Birlasoft at a PE of 20x to its FY24E EPS of INR 21.4, which yields a revised target price of INR 429 per share (earlier target price; INR 443 per share). Accordingly, we maintain a BUY rating on the stock.**

Particulars (in INR million)	FY21	FY22	FY23E	FY24E
Sales	35,557	41,304	47,241	52,203
yoy (%)	8.0	16.2	14.4	10.5
EBITDA	5,293	6,401	7,308	8,831
yoy (%)	36.8	20.9	14.2	20.8
Reported PAT	3,210	4,638	5,076	5,946
yoy (%)	43.1	44.5	9.4	17.1
EBITDAM (%)	14.9	15.5	15.5	16.9
PE (x)	29.6	20.5	18.7	16.0
EPS	11.6	16.7	18.3	21.4

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	148.6	146.4	128.4	1.5%	15.7%
Net Revenue	11,544	11,014	9,453	4.8%	22.1%
Employee cost	6,579	6,297	5,562	4.5%	18.3%
Other Expenses	3,268	2,972	2,381	9.9%	37.2%
EBITDA	1,698	1,745	1,511	-2.7%	12.4%
EBITDA margin %	14.7%	15.8%	16.0%	-114bps	-127bps
Depreciation	196	200	184	-1.6%	6.5%
EBIT	1,502	1,546	1,326	-2.9%	13.2%
EBIT margin %	13.0%	14.0%	14.0%	-103bps	-102bps
Other Income	155	226	215	-31.6%	-27.9%
Finance costs	33	36	28	-9.7%	14.3%
PBT	1,624	1,736	1,512	-6.5%	7.4%
Tax Expense	417	407	376	2.3%	10.8%
Effective tax rate %	25.7%	23.4%	24.9%	-237bps	79bps
PAT	1,207.2	1,329.0	1,136.4	-9.2%	6.2%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,207	1,329	1,136	-9.2%	6.2%
Exceptional item	-	-	-	-	-
Reported PAT	1,207	1,329	1,136	-9.2%	6.2%
PAT margin %	10.5%	12.1%	12.0%	-161bps	-156bps
EPS (INR)	4.3	4.7	4.1	-9.3%	5.9%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 Conference call highlights

- **Vertical wise:** The growth is led by Manufacturing and BFSI vertical. BFSI grew by 5.0% QoQ/17.7% to 17.8% in Q1FY23 against 17.2% in Q4FY22. While Manufacturing up by 2.8% QoQ/22.3%YoY to 46.7% against 46.1 in Q4FY22. Overall, growth led by business and technology transformation was 7.4% /27%. The company's technology business is growing faster than traditional services. Growth continue driven by larger account with Top 5, top 10, and Top 20 customer .
- **Headcount:** Manpower strength was 12,565 as on 30 June 2022, representing a net addition of 1,057 professionals YoY and 361 sequentially. The company has hired a higher number of fresher in Q1FY23 and targeted to hire 500 Fresher in Q2FY23.
- **Guidance:** The management reiterated IT demand outlook for the next 3 years looks healthy despite some of the recession challenges. However, the opportunity is multifold, especially in the digital, cloud eco-system which augurs well for the company. The company continues optimistic and is well positioned to gain growth. Margin side-more headwinds will see as wage hike in Q2FY23 but the company is working on some lever so at least flat and better than Q1FY23. The company wants to bring step improvement in Q2FY23. The company targeted to deliver >15% margin.
- **Utilization** is at 82.5% against 85% in Q1FY22 and 85.2% in Q4FY22. In the range of 85-86% at the normal level.
- **Delay in client account:** 1) Delay in a couple of deals that were won in previous quarters. One of the deals that showed under \$185 million but the client wanted to start in the Q1, but they delayed it because they are into a merger situation and they decided to delay it by a quarter okay. So that revenue that we thought earlier would start flowing in, it did not come. 2) Similarly there is another deal that we have won but there again it was a delayed start where client wanted to wait for some time and they did not want to go for that in the Q1. It will get closed into Q2 and some revenue will start coming into the Q2. 3) There is an element of supply constraint that continue to happen despite that the company seeing lesser attrition but at the same time for every organization, the joining ratio dropped during this time because would have seen some of the reports. Also, see the impact on the revenue. It will be more clear for the company by Q3FY23. Both the deal in \$15-20 mn
- **DSO** at 58 days versus 54 days in Q1 FY22 and 58 Q4FY22. The 58 days DSO is about the average revenue. Improved matrix watch very closely. 2 clients delayed the payment that came on 2nd July as it was expected in the last week of June.
- **Other expenses:** The other expenses-1) Subcon; the company started pledging with a regular employee. The company is investing in a newer area like hiring talent. Some ongoing costs will go to come next 3-4 quarter. Subcon in Q1FY23
- **Cloud side:** strategy mn dollar and significant traction on the cloud side after partnering with google won 2 deals. The company is at par with the current level.
- **Europe:** The company growth is actually flat and smaller number for Europe. The currency benefit was there in Europe.
- **ERP:** 2 client issue and 1 of the client is from enterprise solution side and other client has smaller piece and it was more into the total IT sourcing. Both the client 50% of the enterprise solution.
- **Sub Contractor:** WFH will lead to more and more process operator. So, the company has to improve and reduce the cost rather than just looking at the discount of sub contractor.
- **Annuity Revenue:** The annuity revenue is 70-71%. Shorter and quicker deals have impact on the annuity revenue.

USD Revenues (\$ Mn)	128.4	115.6	143.4	146.4	148.6
QoQ growth %	4.1%	-10.0%	24.0%	2.1%	1.5%
USD/INR	73.6	87.5	74.7	75.2	77.7
Client Geography	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Americas	103.6	95.0	118.9	120.3	126.2
% contribution	80.7%	82.2%	82.9%	82.2%	84.9%
qoq	6.4%	-8.3%	25.1%	1.2%	4.8%
yoy	14.6%	6.6%	27.0%	23.5%	21.8%
Europe	15.2	12.1	15.3	16.4	13.7
% contribution	12%	11%	11%	11%	9%
qoq	-1.7%	-19.9%	26.4%	6.9%	-16.6%
yoy	-16.1%	-21.1%	-1.2%	6.4%	-9.8%
Rest of the World	9.6	8.4	9.2	9.7	8.8
% contribution	7.5%	7.3%	6.4%	6.6%	5.9%
qoq	-8.1%	-12.4%	8.8%	5.3%	-9.3%
yoy	-24.3%	-24.0%	-11.7%	-7.8%	-9.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue by Industry Verticals					
BFSI	22.5	20.9	25.4	25.2	26.5
% contribution	17.5%	18.1%	17.7%	17.2%	17.8%
qoq	-0.4%	-6.9%	21.3%	-0.8%	5.0%
yoy	6.5%	-3.2%	13.6%	11.6%	17.7%
Energy & Utilities	19.1	16.5	21.2	22.1	21.2
% contribution	14.9%	14.3%	14.8%	15.1%	14.3%
qoq	4.8%	-13.6%	28.4%	4.2%	-3.9%
yoy	1.8%	-5.3%	20.0%	21.1%	11.1%
Lifesciences	30.0	28.0	32.0	31.6	31.5
% contribution	23.4%	24.2%	22.3%	21.6%	21.2%
qoq	-0.9%	-6.9%	14.3%	-1.1%	-0.4%
yoy	-13.9%	0.8%	9.7%	4.3%	4.9%
Manufacturing	56.8	50.2	64.8	67.5	69.4
% contribution	44.20%	43.40%	45.20%	46.10%	46.70%
qoq	8.8%	-11.6%	29.2%	4.1%	2.8%
yoy	21.9%	2.6%	28.8%	29.4%	22.3%
Business & Technology Transformation	47.6	42.7	52.6	53.4	57.4
% contribution	37.1%	36.9%	36.7%	36.5%	38.6%
qoq	8.8%	-10.5%	23.4%	1.5%	7.3%
yoy	22.8%	9.2%	30.7%	22.1%	20.4%
Enterprise Solutions	55.3	47.4	59.7	59.9	59.7
% contribution	43.1%	41.0%	41.6%	40.9%	40.2%
qoq	0.4%	-14.4%	25.9%	0.4%	-0.2%
yoy	-5.3%	-16.2%	8.1%	8.6%	7.9%
Cloud & Base Services	25.4	25.5	31.1	33.1	31.5
% contribution	19.8%	22.1%	21.7%	22.6%	21.2%
qoq	4.1%	0.5%	21.8%	6.3%	-4.8%
yoy	5.9%	27.7%	28.9%	35.5%	23.9%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Account				
Y/E Mar	FY21	FY22	FY23E	FY24E
Net sales	35,557	41,304	47,241	52,203
Other operating income	8%	16%	14%	11%
Consumption of materials	-	-	-	-
Staff Expenses	21,158	23,689	27,384	29,799
Other operating expenses	9,107	11,214	12,549	13,573
Total Expenditure	30,264	34,902	39,933	43,372
EBITDA	5,293	6,401	7,308	8,831
EBITDA Margin	14.89%	15.50%	15.47%	16.92%
Depreciation	804	765	910	1,201
Operating profit	4,489	5,636	6,398	7,631
Other income	190	662	620	645
EBIT	4,680	6,298	7,017	8,276
Interest	130	130	130	130
Exceptional items	-	-	-	-
Profit before tax	4,549	6,168	6,887	8,146
Tax	1,339	1,530	1,811	2,199
Share in profit of associate cos				
Minority interest	-	-	-	-
Reported net profit	3,210	4,638	5,076	5,946
Adjusted net profit	3,210	4,638	5,076	5,946
Share O/s mn	277	278	278	278
Adj. EPS INR	11.6	16.7	18.3	21.4

Balance Sheet				
Y/E Mar	FY21	FY22	FY23E	FY24E
APPLICATION OF FUNDS :				
Non Current Assets	8,892	9,500	9,022	9,176
Fixed Assets	1,326	1,562	1,510	1,510
Capital work in progress	65	17	-	-
Goodwill & other Intangibles	4,476	4,568	4,568	4,568
Noncurrent investment	-	552	-	-
Deferred tax assets	1,304	1,391	1,511	1,643
Long term loans and advances	144	162	170	179
Other non-current assets	1,575	1,249	1,262	1,277
Current Assets	21,053	24,333	28,573	34,558
Current investment	5,710	7,861	7,861	7,861
Sundry debtors	6,318	8,488	8,630	8,910
Cash and bank	5,274	3,828	7,128	12,864
Others current assets	3,752	4,156	4,954	4,923
Total Assets	29,944	33,833	37,595	43,735
SOURCES OF FUNDS :				
Share Capital	555	559	559	559
Reserves	21,245	25,272	28,739	33,020
Total Shareholders Funds	21,799	25,831	29,298	33,579
Non-Current Liabilities	1,802	1,404	1,453	1,526
Other long term liabilities	999	912	912	930
Long-term provisions	803	492	542	596
Current Liabilities	6,344	6,599	6,844	8,630
Short term borrowings	-	-	-	-
Trade payables	1,318	2,095	1,941	3,290
Other current liabilities	4,786	4,108	4,487	4,904
Short term provisions	240	396	416	437
Total Equity & Liabilities	29,944	33,833	37,595	43,735

Cash Flow Statement				
Y/E Mar	FY21	FY22	FY23E	FY24E
PBT	4,548	6,168	6,887	8,146
Non-cash adjustments	852	233	421	686
Changes in working capital	845	(2,436)	(688)	1,545
Tax Paid	(667)	(1,828)	(1,898)	(2,293)
Cashflow from operations	5,578	2,137	4,722	8,084
Capital expenditure	(246)	(1,043)	(842)	(1,201)
Change in investments	(4,355)	(2,704)	552	-
Other investing cashflow	157	1,488	108	630
Cashflow from investing	(4,444)	(2,260)	(182)	(570)
Issue of equity	2	4	-	-
Interest Paid	(21)	(130)	(130)	(130)
Dividends paid	(554)	(1,109)	(1,110)	(1,665)
Other financing cashflow	(395)	(89)	(0)	18
Cashflow from financing	(969)	(1,323)	(1,240)	(1,777)
Change in cash & cash eq	165	(1,446)	3,300	5,736
Opening cash & cash eq	4,496	5,274	3,828	7,128
Closing cash & cash eq	4,661	3,828	7,128	12,864
Closing cash & Bank Bal.	5,274	4,750	8,050	13,786
Free cash flow to firm	5,332	1,094	3,880	6,883

Ratios				
Y/E Mar	FY21	FY22	FY23E	FY24E
PER SHARE				
EPS INR	11.6	16.7	18.3	21.4
CEPS INR	14.5	19.5	21.6	25.8
Book Value INR	78.7	93.1	105.6	121.0
VALUATION				
EV / Net Sales	2.4	2.0	1.7	1.4
EV / EBITDA	15.8	13.0	10.9	8.4
P / E Ratio	29.6	20.5	18.7	16.0
P / BV Ratio	4.4	3.7	3.2	2.8
GROWTH YOY%				
Sales Growth	8.0	16.2	14.4	10.5
EBITDA Growth	36.8	20.9	14.2	20.8
Net Profit Growth	43.1	44.5	9.4	17.1
Gross Fixed Asset Growth	14.1	15.9	15.7	17.2
PROFITABILITY				
Gross Profit/ Net sales (%)	40.5	42.6	42.0	42.9
EBITDA / Net Sales (%)	14.9	15.5	15.5	16.9
EBIT / Net sales(%)	12.6	13.6	13.5	14.6
NPM / Total income (%)	9.0	11.2	10.7	11.4
ROE (%)	14.7	18.0	17.3	17.7
ROCE (%)	19.8	23.1	22.8	23.6
Tax / PBT %	29.4	24.8	26.3	27.0
TURNOVER				
Net Working Cycle	51	60	52	39
Debtors Velocity (Days)	65	75	67	62
Inventory (Days)	-	-	-	-
Creditors Velocity (Days)	14	15	15	23
Current Ratio	3.3	3.7	4.2	4.0
Quick Ratio	3.3	3.7	4.2	4.0
Yield %	1.0	1.3	1.8	1.6

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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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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