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CMP: INR 402

Rating: Accumulate

Target Price: INR 460

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)	110,731
52w H/L (INR)	412/ 250
Avg Yearly Vol (in 000')	2426

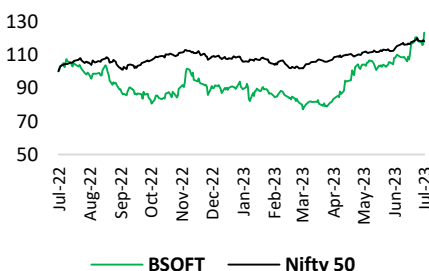
Shareholding Pattern %

(As on Jun, 2023)

Promoters	41.08
FII	11.47
DII	21.2
Public & Others	26.25

Stock Performance (%)	1m	3m	12m
Birlasoft	13.9	48.3	23.3
Nifty 50	4.4	9.7	18.1

Birlasoft Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Birlasoft(BSFOT) Ltd in Q1FY24, Stellar set of Nos but the slowdown in deal wins: Birlasoft reported Q1FY24 revenues of USD 153.6m up 3.0% QoQ versus our estimate of 0.9% increase. The company has reported consolidated revenue of INR 12,628Mn, +9.4% YoY/3% QoQ in Q1FY24 above our estimate of INR 12,350 Mn. (Revenue and earnings during Q1FY24 reflect the receipt of \$2 mn for Disengagement Services ending on May 31, 2023, in line with the Settlement). The growth was fueled by new projects, ramp ups, and account mining, with the top 20 accounts experiencing a QoQ growth of ~2.7%. Consolidated EBIT stood at INR 1,717 Mn against our estimate of INR 1,543 Mn. On the margins front, the EBIT margin came at 13.6% against our estimate of 12.49%. Margin expansion was driven by the better gross margin as well as lower SG&A.

Decent Deal wins quarter one back of two strong quarters: Deal signings in Q1FY24 at \$146 (Deal wins of \$ 80 Mn and renewals of \$ 66 Mn) Mn vs Q4FY23 at \$286 Mn (TCV new deal wins of \$ 114 Mn and renewals of \$ 172 Mn) and TCV (\$231 Mn in Q3FY23). Pipeline remains healthy will influence, are in active discussions, and expect deal flow to improve noticeably in the next couple of quarters. The quarter's growth-driven performance reflects a strong focus on execution amid macroeconomic uncertainty. Simultaneously, company invests in enhancing capabilities to capitalize on future uptrends when demand rebounds.

Strong growth vertical led by BFSI & Manufacturing: BFSI and manufacturing led growth, while infrastructure and ERP drove service lines. Reporting now aligns with four service lines and four verticals to better reflect business focus.

Valuations

Birlasoft reported a 3% CC growth in dollar revenues (excluding Invacare), outperforming its peers. The company is taking the necessary steps to turn the business around, including a focus on delivery, clients, investment in sales, and hiring leaders to drive vertical growth. We anticipate QoQ growth in the coming quarters, led by the BFSI sector, bottoming of the ERP business, and a healthy H2FY24E. The medium-term margin target is 15%-16%, and margin stabilization is expected from H2FY24 onwards, with an anticipated exit margin of 16% in FY24. We expect revenue growth at a CAGR of 20% during FY23-26E. **We value Birlasoft at a PE of 20x its FY26E EPS of INR 23, which yields a revised target price of INR 460 per share and we have downgraded our rating from a BUY to Accumulate on the stock.**

Exhibit 1: Financial Performance

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
Revenue in USD mn	534	595	655	742	825
yoy (%)	11.3	11.4	10.2	13.2	11.2
Sales	41,304	47,571	53,776	61,561	68,450
yoy (%)	16.2	15.2	13.0	14.5	11.2
EBITDA	6,401	5,139	8,285	9,759	11,172
Reported PAT	4,638	3,373	5,613	6,527	7,451
yoy (%)	44.5	(27.3)	66.4	16.3	14.2
EBITDAM (%)	15.5	10.8	15.4	15.9	16.3
EPS	16.7	12.2	20.2	21.7	23.0
PE (x)	24.1	33.1	19.9	18.5	17.5

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

Particulars (in INR Mn)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	153.60	149.10	148.6	3.0%	3.4%
Net Revenue	12,628	12,264	11,544	3.0%	9.4%
Employee cost	7,428	7,294	6,579	1.8%	12.9%
Other Expenses	3,268	3,300	3,268	-1.0%	0.0%
EBITDA	1,931	1,670	1,698	15.7%	13.7%
EBITDA margin %	15.3%	13.6%	14.7%	168bps	58bps
Depreciation	214	210	196	2.0%	8.8%
EBIT	1,717	1,460	1,502	17.6%	14.4%
EBIT margin %	84.9%	84.8%	13.0%	10bps	7189bps
Other Income	141	-23	155	-708.8%	-9.2%
Finance costs	42	40	33	6.5%	30.0%
PBT	1,816	1,397	1,624	-	-
Tax Expense	440	276	417	59.8%	5.7%
Effective tax rate %	24.3%	19.7%	25.7%	-	-
PAT	1,375.41	1,121.68	1,207.2	22.6%	13.9%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,375.41	1,121.68	1,207	22.6%	13.9%
Exceptional item	-	-	-	-	-
Reported PAT	1,375.41	1,121.68	1,207	22.6%	13.9%
PAT margin %	10.9%	9.1%	10.5%	-	-
EPS (INR)	5.0	4.1	4.3	22.1%	15.9%
Particulars (in INR Mn)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	2,610	2,508	2,051	4.1%	27.2%
Manufacturing	5,138	4,913	4,755	4.6%	8.1%
Energy and Utilities	1,798	1,823	1,642	-1.4%	9.5%
Life Sciences	3,082	3,020	3,096	2.1%	-0.5%

Source: Arianth Research, Company Filings

Birlasoft Q1FY24- Concall KTAs

EBITDA Margin: The medium-term margin target is 15%-16%, and margin stabilization is expected from H2FY24 onwards, with an anticipated exit margin of 16% in FY24.

Gen AI: The company established an AI Center of Excellence (COE) in collaboration with Microsoft, leveraging Birlasoft's industry expertise and Microsoft Azure open AI service. Additionally, company is training 500 consultants in AI technologies. Successfully implemented an AI solution for a prominent life sciences customer and developed an AI-based closed-loop autonomous solution for a manufacturing client, leading to enhanced production rates.

Spends: Customer organizations continue to invest in IT, seeking better value and stronger partnerships with service providers, leading to a healthy tech spend focused on operational excellence, customer experience, and cost efficiency.

ERP: The ERP sector seems to have reached its lowest point and is expected to improve from now on. By FY27-28, there is a significant opportunity for growth despite recent losses in market share. The company will experience an uptick, although starting from a smaller base.

TCV: The company aims to achieve a quarterly TCV of at least \$200 million.

Wage hike: The company has a wage hike cycle in Q2 (Sept 2023). Impact on margin will be slightly in Q2FY24.

BFSI: The BFSI business is relatively small and should not be compared to larger peers, with a focus on resilient market segments leading to continued growth. The goal is to work with larger banks in the future. Regarding ERP, the business has seen growth after bottoming out, and the growth is primarily driven by the cloud, which presents significant opportunities.

Invacare's main focus is on the healthcare vertical, specifically on the infrastructure service line, with some involvement in digital services and a minor presence in ERP.

M&A: The company acquires other firms primarily to expand its geographic reach, and it pursues M&A opportunities for better growth prospects rather than solely focusing on revenue generation.

Exhibit 3: Key Operating Metrics

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
USD Revenues (\$ Mn)	128.4	115.6	143.4	146.4	148.6	148.8	148.4	149.10	153.60
QoQ growth %	4.1%	-10.0%	24.0%	2.1%	1.5%	0.1%	-0.3%	0.5%	3.0%
USD/INR	73.6	87.5	74.7	75.2	77.7	80.1	82.3	82.26	82.2
Client Geography	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Americas	103.6	95.0	118.9	120.3	126.2	125.1	124.2	127.2	129.0
% contribution	80.7%	82.2%	82.9%	82.2%	84.9%	84.1%	83.7%	85.3%	84.0%
qoq	6.4%	-8.3%	25.1%	1.2%	4.8%	-0.8%	-0.7%	2.4%	1.4%
yoy	14.6%	6.6%	27.0%	23.5%	21.8%	31.7%	4.5%	5.7%	2.3%
Europe	15.2	12.1	15.3	16.4	13.7	14.3	15.3	13.4	15.5
% contribution	12%	11%	11%	11%	9%	10%	10%	9%	10%
qoq	-1.7%	-19.9%	26.4%	6.9%	-16.6%	4.5%	7.0%	-12.2%	15.6%
yoy	-16.1%	-21.1%	-1.2%	6.4%	-9.8%	17.7%	-0.4%	-18.2%	13.5%
Rest of the World	9.6	8.4	9.2	9.7	8.8	9.4	8.9	8.5	9.2
% contribution	7.5%	7.3%	6.4%	6.6%	5.9%	6.3%	6.0%	5.7%	6.0%
qoq	-8.1%	-12.4%	8.8%	5.3%	-9.3%	6.9%	-5.0%	-4.6%	8.4%
yoy	-24.3%	-24.0%	-11.7%	-7.8%	-9.0%	11.1%	-3.0%	-12.0%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.1%
Revenue by Industry Verticals									
BFSI	22.5	20.9	25.4	25.2	26.5	28.4	29.8	30.6	31.8
% contribution	17.5%	18.1%	17.7%	17.2%	17.8%	19.1%	20.1%	20.5%	20.7%
qoq	-0.4%	-6.9%	21.3%	-0.8%	5.0%	7.4%	5.0%	2.5%	4.0%
yoy	6.5%	-3.2%	13.6%	11.6%	17.7%	35.8%	17.5%	21.4%	20.2%
Energy & Utilities	19.1	16.5	21.2	22.1	21.2	21.0	20.6	22.2	22.0
% contribution	14.9%	14.3%	14.8%	15.1%	14.3%	14.1%	13.9%	14.9%	14.3%
qoq	4.8%	-13.6%	28.4%	4.2%	-3.9%	-1.3%	-1.7%	7.7%	-1.1%
yoy	1.8%	-5.3%	20.0%	21.1%	11.1%	26.9%	-2.8%	0.5%	3.4%
Lifesciences	30.0	28.0	32.0	31.6	31.5	29.2	29.5	26.2	37.5
% contribution	23.4%	24.2%	22.3%	21.6%	21.2%	19.6%	19.9%	17.6%	24.4%
qoq	-0.9%	-6.9%	14.3%	-1.1%	-0.4%	-7.4%	1.3%	-11.1%	42.8%
yoy	-13.9%	0.8%	9.7%	4.3%	4.9%	4.3%	-7.7%	-17.0%	19.0%
Manufacturing	56.8	50.2	64.8	67.5	69.4	70.2	68.4	70.2	62.5
% contribution	44.20%	43.40%	45.20%	46.10%	46.70%	47.20%	46.10%	47.10%	40.70%
qoq	8.8%	-11.6%	29.2%	4.1%	2.8%	1.2%	-2.6%	2.7%	-11.0%
yoy	21.9%	2.6%	28.8%	29.4%	22.3%	40.0%	5.5%	4.1%	-9.9%

Revenue by Service Offerings	Q1FY23	Q4FY23	Q1FY24
Data & Analytics	38.3	41.6	41.0
% contribution	25.8%	27.90%	26.70%
Digital & Cloud	41.6	47.3	48.4
% contribution	28.0%	31.70%	31.50%
ERP	47.8	41.7	43.1
% contribution	37.9%	32.80%	33.40%
ICTS	12.5	11.3	12.9
% contribution	8.4%	7.60%	8.40%

Source: Arian Research, Company Filings

Key Financials

Profit & Loss Account					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
Revenue in USD mn	534	595	655	742	825
Growth (%)	11.3%	11.4%	10.17%	13.2%	11.2%
Net sales	41,304	47,571	53,776	61,561	68,450
Growth (%)	16.2%	15.2%	13.04%	14.5%	11.2%
Consumption of materials	-	-	-	-	-
Staff Expenses	23,689	27,771	31,112	36,555	40,685
Other operating expenses	11,214	14,661	14,378	15,247	16,593
Total Expenditure	34,902	42,432	45,491	51,802	57,278
EBITDA	6,401	5,139	8,285	9,759	11,172
EBITDA Margin	15.50%	10.80%	15.41%	15.85%	16.32%
Depreciation	765	812	1,160	1,416	1,574
Operating profit	5,636	4,327	7,125	8,343	9,598
Other income	662	410	626	710	720
EBIT	6,298	4,737	7,751	9,053	10,318
Interest	130	160	169	173	180
Exceptional items	-	-	-	-	-
Profit before tax	6,168	4,576	7,582	8,880	10,138
Tax	1,530	1,204	1,968	2,353	2,686
Share in profit of associate cos	-	-	-	-	-
Minority interest	-	-	-	-	-
Reported net profit	4,638	3,373	5,613	6,527	7,451
EO Items	-	-	-	-	-
Adjusted net profit	4,638	3,373	5,613	6,527	7,451
Share O/s mn	278	278	278	278	278
Adj. EPS Rs	16.7	12.2	20.2	21.7	23.0

Balance Sheet					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
APPLICATION OF FUNDS :					
Non Current Assets	9,500	9,127	9,358	9,526	10,904
Fixed Assets	1,562	1,615	1,692	1,692	2,887
Capital work in progress	17	-	-	-	-
Goodwill & other Intangibles	4,568	4,568	4,568	4,568	4,568
Noncurrent investment	552	-	-	-	-
Deferred tax assets	1,391	1,511	1,643	1,785	1,941
Long term loans and advances	162	170	179	188	197
Other non-current assets	1,249	1,262	1,277	1,293	1,310
Current Assets	24,333	26,599	32,260	38,142	43,735
Current investment	7,861	7,861	7,861	7,861	7,861
Inventories	-	-	-	-	-
Sundry debtors	8,488	8,691	9,179	10,508	11,683
Cash and bank	3,828	5,087	10,280	14,520	18,632
Short loans and advances	-	-	-	-	-
Others current assets	4,156	4,960	4,940	5,254	5,558
Total Assets	33,833	35,726	41,618	47,668	54,639
SOURCES OF FUNDS :					
Share Capital	559.0	559.0	559.0	559.0	559.0
Reserves	25,272	26,856	30,804	35,805	41,730
Total Shareholders Funds	25,831	27,415	31,363	36,364	42,289
Minority interest	-	-	-	-	-
Non-Current Liabilities	1,404	1,453	1,526	1,604	1,688
Long term borrowings	-	-	-	-	-
Deferred tax liability	-	-	-	-	-
Other long term liabilities	912	912	930	948	967
Long-term provisions	492	542	596	655	721
Current Liabilities	6,599	6,858	8,729	9,700	10,662
Short term borrowings	-	-	-	-	-
Trade payables	2,095	1,955	3,389	3,879	4,313
Other current liabilities	4,108	4,487	4,904	5,362	5,867
Short term provisions	396	416	437	459	482
Total Equity & Liabilities	33,833	35,726	41,618	47,668	54,639

Source: Arianth Research, Company Filings

Key Financials

Cash Flow Statement					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,168	4,576	7,582	8,880	10,138
Non-cash adjustments	233	563	704	879	1,034
Changes in working capital	(2,436)	(741)	1,411	(662)	(508)
Tax Paid	(1,828)	(1,290)	(2,062)	(2,455)	(2,796)
Cashflow from operations	2,137	3,108	7,635	6,642	7,867
Capital expenditure	(1,043)	(849)	(1,237)	(1,416)	(2,770)
Change in investments	(2,704)	552	-	-	-
Other investing cashflow	1,488	(101)	611	694	702
Cashflow from investing	(2,260)	(398)	(626)	(722)	(2,068)
Issue of equity	4	-	-	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	(130)	(160)	(169)	(173)	(180)
Increase / (Decrease) in Loan Funds					
Dividends paid	(1,109)	(1,110)	(1,665)	(1,526)	(1,526)
Other financing cashflow	(89)	-	18	19	19
Cashflow from financing	(1,323)	(1,270)	(1,816)	(1,681)	(1,687)
Change in cash & cash eq	(1,446)	1,440	5,193	4,240	4,112
Opening cash & cash eq	5,274	3,828	5,087	10,280	14,520
Closing cash & cash eq	3,828	5,267	10,280	14,520	18,632
Closing cash & Bank Bal.	4,750	6,190	11,202	15,442	19,554
Free cash flow to firm	1,094	2,259	6,398	5,226	5,097

Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
PER SHARE					
EPS INR	16.7	12.2	20.2	21.7	23.0
CEPS INR	19.5	15.1	24.4	26.4	27.9
Book Value INR	93.1	98.8	113.0	131.0	152.4
VALUATION					
EV / Net Sales	2.4	2.1	1.7	1.4	1.2
EV / EBITDA	15.6	19.2	11.3	9.1	7.6
P / E Ratio	24.1	33.1	19.9	18.5	17.5
P / BV Ratio	4.3	4.1	3.6	3.1	2.6
GROWTH YOY%					
Sales Growth	16.2	15.2	13.0	5.7	3.2
EBITDA Growth	20.9	(19.7)	61.2	8.7	6.3
Net Profit Growth	44.5	(27.3)	66.4	7.3	6.0
Gross Fixed Asset Growth	15.9	15.8	17.7	17.2	16.4
PROFITABILITY					
Gross Profit/ Net sales (%)	42.6	41.6	42.1	40.6	40.6
EBITDA / Net Sales (%)	15.5	10.8	15.4	15.9	16.3
EBIT / Net sales(%)	13.6	9.1	13.2	13.6	14.0
NPM / Total income (%)	11.2	7.1	10.4	10.6	10.9
ROE (%)	18.0	12.3	17.9	17.9	17.6
ROCE (%)	23.1	16.4	23.6	23.8	23.5
Tax / PBT %	24.8	26.3	26.0	26.5	26.5
TURNOVER					
Net Working Cycle	60	52	39	44	50
Debtors Velocity (Days)	75	67	62	67	73
Inventory (Days)	-	-	-	-	-
Creditors Velocity (Days)	15	15	23	23	23
Current Ratio	3.7	3.9	3.7	3.9	4.1
Quick Ratio	3.7	3.9	3.7	3.9	4.1
LIQUIDITY					
Gross Asset Ratio	6.9	6.8	6.6	5.6	5.5
Total Asset Ratio	1.2	1.3	1.3	1.3	1.3
Net Debt-Equity Ratio	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Interest Coverage	48.4	29.5	45.9	52.3	57.3
PAYOUT					
Payout %	26.9	49.4	27.2	23.4	20.5
Per share	4.5	6.0	5.5	5.5	5.5
Yield %	1.1	1.5	1.4	1.4	1.4

Source: Arihant Research, Company Filings

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880