Arihant Capital
Generating Wealth

Q1FY25 - Result Update
1st August 2024

Birlasoft Ltd.

Expect some moderation in verticals in the near term

CMP: INR 675

Rating: Neutral

Target Price: INR 705

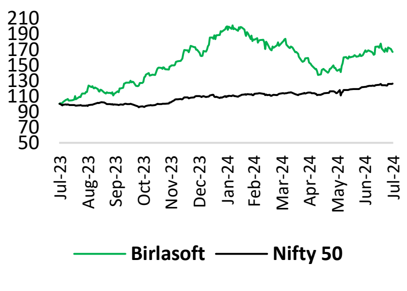
Stock Info	
BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Capital (INR mn)	551.9
Mkt Cap (INR mn)	194695
52w H/L (INR)	862/418
Avg Yearly Vol (in 000')	2445

Shareholding Pattern %
(As on March, 2024)

Promoters	40.90
FII	18.82
DII	19.55
Public & Others	20.73

Stock Performance (%)	1m	6m	12m
Birlasoft	-1.7	-16.9	64.9
Nifty 50	3.28	14.8	26.2

Birlasoft Vs Nifty 50



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Birlasoft(BSFOT) posted weak set of results Revenue, EBIT, and PAT below estimates. Birlasoft reported Q1FY25 revenues of USD 159.1 mn down 2.9% QoQ/+3.6% YoY versus (Our estimate of USD 166 Mn). Constant currency (CC) revenue growth is down 2.7% QoQ/+3.8% YoY.The company has reported consolidated revenue of INR 13,274 Mn, up by 5.1% YoY/ down 2.6% QoQ in Q1FY25 below (Our estimate of INR 13,800 Mn). Growth led by BFSI grew by 20.1% YoY/ +8.7% QoQ, followed by Manufacturing grew by 1% YoY/ down 9% QoQ, Energy & utility grew by 16.7% YoY/+4.1% QoQ while Life science de-grew by 6.2% YoY/-5.6% QoQ. Consolidated EBIT stood at INR 1,745 Mn below (Our estimate of INR 2,050 Mn). On the margins front, the EBIT margin came at 13.1% against (Our estimate of 14.86%) down by 157bps QoQ/down 45bps. Consolidated PAT stood at INR 1502 Mn, below (Our estimate of INR 1660 Mn) down 16.6% QoQ/9.2% YoY. The order booking for Q1FY25, was at US $94 mn in TCV (De-growth 12.1% QoQ) and renewals of $ 66 Mn. DSO Improved by 3 Days to 52 Days in Q1FY25. LTM attrition down 80bps QoQ at 11.6%. Headcount increased by 270 to 12,865 in total. IT Utilization down by 460bps QoQ/down 320bps YoY at 81.7%. Offshore revenue 56.5% against 52.2% in Q4FY24.

BFSI Growth to Moderate but Remain a Leader in FY25: The BFSI business has been performing very well for the past seven quarters, including the current one. However, growth in BFSI is expected to moderate after such a prolonged period of strong performance, though it will remain a growth leader in FY25. Despite this moderation, significant growth should not be expected QoQ. The business mix in BFSI primarily involves project delivery focused on transformation, with some discretionary work being strengthened. This project-based approach enhances domain capabilities and supports customers in their transformation journeys.

Infra & Life Sciences growth expected in H2 FY25: The new Infra service line has scaled up and recorded strong growth due to fresh engagements in Q1FY25. Manufacturing verticals showed a slowdown after a strong previous year. Life Sciences & Services experienced a sequential decline due to project completions and delays, but is expected to return to growth in H2 FY25, with good improvement likely in Q2.

Valuations

Birlasoft delivered muted numbers in Q1FY25, indicating a persistently tough operating environment, reduced discretionary spending by customers, delays in project ramp-ups, and ongoing investment in capabilities. EBITDAM decreased by 157 bps QoQ to 14.7%, due to delays in deal ramp-ups, though it received some benefit from the reversal of provisions (~INR 222 Mn) for long-service awards for senior employees. Adjusted EBITDA Margin (after a one-off of ~INR 222mn) declined by ~330 bps to 13%. Due to the Q1 miss and ongoing challenging conditions, management has retracted its target of above-industry growth for FY25 and has not provided EBITDA Margin guidance for FY25. However, Company anticipate Q2 will improve over Q1, with some delayed projects expected to start by the end of July. We anticipate a 10.8% CAGR in revenue growth from FY24 to FY27E. **Our valuation, based on a PE of 23x FY27E EPS of INR 30.6, yields a target price of INR 705 per share. We downgrade our rating to a "Neutral" from Hold earlier.**

Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

Particulars (in INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	*159.10*	*163.90*	*153.60*	*-2.9%*	*3.6%*
Net Revenue	13,274	13,625	12,628	*-2.6%*	*5.1%*
Employee cost	7,602	7,679	7,428	*-1.0%*	*2.3%*
Other Expenses	3,722	3,729	3,268	*-0.2%*	*13.9%*
EBITDA	1,951	2,217	1,931	*-12.0%*	*1.0%*
EBITDA margin %	*14.7%*	*16.3%*	*15.3%*	*-157bps*	*-60bps*
Depreciation	206	211	214	*-2.4%*	*-3.7%*
EBIT	1,745	2,006	1,717	*-13.0%*	*1.6%*
EBIT margin %	13.1%	14.7%	13.6%	*-157bps*	*-45bps*
Other Income	345	457	141	*-24.5%*	*145.7%*
Finance costs	42	41	42	*2.8%*	*-0.7%*
PBT	2,049	2,422	1,816	*-15.4%*	*12.8%*
Tax Expense	547	621	440	*-12.0%*	*24.1%*
Effective tax rate %	26.7%	25.7%	24.3%	*4.0%*	*10.0%*
PAT	1,502.07	1,800.84	1,375.41	*-16.6%*	*9.2%*
MI & Associates	-	-	-		
Consolidated PAT	1,502.07	1,800.84	1,375.41	*-16.6%*	*9.2%*
Exceptional item	-	-	-		
Reported PAT	1,502.07	1,800.84	1,375.41	*-16.6%*	*9.2%*
PAT margin %	*11.3%*	*13.2%*	*10.9%*	*-190bps*	*42bps*
EPS (INR)	5.4	6.5	5.0	*-16.5%*	*8.9%*

Particulars (in INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	*3,134*	*2,884*	*2,610*	*8.7%*	*20.1%*
Manufacturing	5,195	5,710	5,138	*-9.0%*	*1.1%*
Energy and Utilities	2,099	2,017	1,798	*4.1%*	*16.7%*
Life Sciences	2,846	3,015	3,082	*-5.6%*	*-7.7%*

Source: Arihant Research, Company Filings

Birlasoft -Q1FY25 Concall highlights

- The quarter was subdued after five consecutive quarters of sequential growth.
- The operating environment remained challenging in Q1.
- There were tightened discretionary spends and delays in project ramp-ups in Q1.
- Clients delayed decisions and reduced discretionary spending in Q1.
- Q2 is expected to be stronger than Q1 in terms of revenue.
- ERP experienced a sequential decline due to project deferments, impacting manufacturing revenues.
- Despite this, the company remains optimistic about the ERP business due to strong partnerships and a robust deal pipeline.
- Positive developments are emerging in manufacturing as deferred programs are resuming.
- Delayed programs have started ramping up, anticipating a recovery and strong performance in Q2.
- Growth in BFSI and EU verticals was driven by deals ramping up and successful client mining.
- The life sciences sector declined in Q2 due to some programs ending and others being delayed.
- The life sciences vertical is expected to return to growth in H2FY25E with moderate growth in Q2.
- The business mix is shifting from digital to infrastructure, focusing on cost optimization deals.
- The company continued investments in the business are planned.
- The focus will be on achieving sequential revenue growth, which will positively impact margin improvement.
- The deal pipeline continues to grow, with Q2 deal TCV expected to surpass Q1.
- BFSI growth will moderate after eight quarters of growth but will remain a growth driver in FY25E.
- BFSI is projected to grow above the industry average going forward. The focus within BFSI will shift more towards peripheral systems rather than core banking.
- Clients are facing price pressures, leading to a shift towards offshore services.
- Onsite revenue is expected to return when discretionary spending resumes.
- Base margin is projected to be 13% in Q2.
- The timing and extent of wage hikes have not yet been decided.
- In Q4, 75% of deals won in BFSI were renewals, and 25% were net new, which are ramping up and will start generating revenue.
- The industry remains cautiously optimistic, with demand remaining weak as seen in Q4FY24.
- The manufacturing vertical experienced the majority of project delays in Q1.
- The company aims to invest in the infrastructure business to generate more predictable annuity revenues.
- The digital business is strong, with significant investments in data and analytics to return to a growth trajectory.

Exhibit 3: Key Operating Metrics

	Q1FY24	Q4FY24	Q1FY25
USD Revenues ($ Mn)	153.60	163.90	159.10
QoQ growth %	3.0%	1.6%	-2.9%
USD/INR	**82.2**	**83.12**	**83.41**
Client Geography	**Q1FY24**	**Q4FY24**	**Q1FY25**
Americas	131.8	141.8	133.6
% contribution	85.8%	86.5%	84.0%
qoq	3.6%	2.6%	-5.7%
yoy	4.5%	11.5%	1.4%
Rest of the World	9.2	22.1	25.5
% contribution	6.0%	13.5%	16.0%
qoq	8.4%	-4.1%	15.0%
yoy	5.1%	160.4%	176.2%
Revenue by Industry Verticals	**Q1FY24**	**Q4FY24**	**Q1FY25**
BFSI	31.8	34.7	37.5
% contribution	20.7%	21.2%	23.6%
qoq	4.0%	4.6%	8.1%
yoy	20.2%	13.7%	18.1%
Energy & Utilities	22.0	24.3	25.1
% contribution	14.3%	14.8%	15.8%
qoq	-1.1%	3.7%	3.6%
yoy	3.4%	9.2%	14.4%
Lifesciences	37.5	36.2	34.0
% contribution	24.4%	22.1%	21.4%
qoq	42.8%	-6.0%	-6.0%
yoy	19.0%	38.0%	-9.2%
Manufacturing	62.5	68.7	62.4
% contribution	40.70%	41.90%	39.20%
qoq	-11.0%	3.6%	-9.2%
yoy	-9.9%	-2.2%	-0.2%
Revenue by Service Offerings	**Q1FY24**	**Q4FY24**	**Q1FY25**
Data & Analytics	41.0	39.5	197.4
% contribution	26.70%	24.10%	124.10%
Digital & Cloud	83.3	87.7	83.8
% contribution	54.20%	53.50%	52.70%
ERP	44.0	47.8	46.6
% contribution	33.40%	33.70%	34.90%
Infrastructure	12.9	14.4	19.7
% contribution	8.40%	8.80%	12.40%
Revenue by Service Offerings			
Revenues by Contract Type	**Q1FY24**	**Q4FY24**	**Q1FY25**
Time & Material	38.50%	38.40%	37.30%
Fixed Price, Fixed Monthly	61.5%	61.6%	62.7%
Revenues Mix			
Onsite	49.0%	47.8%	43.5%
qoq	3.9%	6.0%	-11.7%
yoy			
Offshore	51.0%	52.2%	56.5%
qoq	2.2%	-2.1%	5.1%
yoy			
Deal Wins - New	**Q1FY24**	**Q4FY24**	**Q1FY25**
New Total Contract Value (TCV) - in $ Mn	80	107	94
	Q1FY24	**Q4FY24**	**Q1FY25**
Total Headcount	12235	12,595	12,865
Addition/Deletion	42	239	270
Technical	11061	11,433	11,597
Addition/Deletion	18	264	164
Sales & Support	1174	1162	1268
Addition/Deletion	24	-25	106
Women Employees	2863	2968	3048
Attrition (LTM)	18.80%	12.40%	11.60%
Utilization	84.90%	86.30%	81.70%

Source: Arihant Research, Company Filings

Profit & Loss Account				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenue in USD mn	**637**	**678**	**742**	**867**
Growth (%)	7.09%	6.4%	9.5%	16.8%
Net sales	52,781	57,285	62,340	72,821
Growth (%)	10.08%	8.5%	8.8%	16.8%
Consumption of materials	-	-	-	-
Staff Expenses	30,483	33,053	35,768	41,281
Other operating expenses	13,936	15,467	16,994	20,205
Total Expenditure	44,419	48,520	52,762	61,486
EBITDA	**8,362**	**8,765**	**9,578**	**11,335**
EBITDA Margin	**15.84%**	**15.30%**	**15.36%**	**15.57%**
Depreciation	850	718	688	801
Operating profit	**7,512**	**8,047**	**8,890**	**10,534**
Other income	1,035	970	1,350	1,500
EBIT	**8,547**	**9,017**	**10,240**	**12,034**
Interest	199	173	170	175
Exceptional items	-	-	-	-
Profit before tax	**8,348**	**8,844**	**10,070**	**11,859**
Tax	2,110	2,184	2,490	2,929
Share in profit of associate cos	25.3%	24.7%	24.7%	24.7%
Minority interest	-	-	-	-
Reported net profit	**6,238**	**6,660**	**7,580**	**8,930**
EO Items	-	-	-	-
Adjusted net profit	**6,238**	**6,659**	**7,586**	**8,929**
Share O/s mn	278	276	276	276
Adj. EPS INR	**22.5**	**24.2**	**27.5**	**32.4**

Balance Sheet				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
APPLICATION OF FUNDS :				
Non Current Assets	**8,723**	**10,193**	**11,657**	**13,375**
Fixed Assets	1,142	2,570	3,858	5,379
Capital work in progress	116	-	-	-
Goodwill & other Intangibles	4,957	4,957	4,957	4,957
Noncurrent investment	-	-	-	-
Deferred tax assets	1,283	1,391	1,507	1,633
Long term loans and advances	-	-	-	-
Other non-current assets	1,224	1,276	1,336	1,406
Current Assets	**27,674**	**38,092**	**43,262**	**49,919**
Current investment	10,336	10,336	10,336	10,336
Inventories	-	-	-	-
Sundry debtors	10,365	8,632	9,394	10,973
Cash and bank	4,249	16,238	20,499	25,418
Short loans and advances	-	-	-	-
Others current assets	2,723	2,887	3,033	3,192
Total Assets	**39,256**	**48,285**	**54,919**	**63,294**
SOURCES OF FUNDS :				
Share Capital	551.1	551.1	551.1	551.1
Reserves	29,889	37,700	43,489	50,627
Total Shareholders Funds	**30,440**	**38,251**	**44,040**	**51,179**
Minority interest	-	-	-	-
Non-Current Liabilities	**1,290**	**1,373**	**1,463**	**1,561**
Long term borrowings	-	-	-	-
Deferred tax liability	-	-	-	-
Other long term liabilities	578	589	601	613
Long-term provisions	712	784	862	948
Current Liabilities	**7,458**	**8,661**	**9,416**	**10,555**
Short term borrowings	-	-	-	-
Trade payables	2,805	3,610	3,928	4,589
Other current liabilities	4,022	4,388	4,792	5,235
Short term provisions	631	663	696	731
Total Equity & Liabilities	**39,256**	**48,285**	**54,919**	**63,294**

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT	8,348	8,844	10,070	11,859
Non-cash adjustments	15	(79)	(492)	(524)
Changes in working capital	(285)	2,820	(101)	(542)
Tax Paid	(1,815)	(2,268)	(2,580)	(3,026)
Cashflow from operations	**6,263**	**9,317**	**6,897**	**7,766**
Capital expenditure	(544)	(2,029)	(1,976)	(2,323)
Change in investments	(5,428)	-	-	-
Other investing cashflow	1,057	918	1,290	1,430
Cashflow from investing	**(4,915)**	**(1,110)**	**(686)**	**(893)**
Issue of equity	1	-	-	-
Issue/repay debt	-	-	-	-
Interest Paid	(199)	(173)	(170)	(175)
Increase / (Decrease) in Loan Funds				
Dividends paid	(1,663)	(1,791)	(1,791)	(1,791)
Other financing cashflow	(84)	12	12	12
Cashflow from financing	**(1,946)**	**(1,953)**	**(1,949)**	**(1,954)**
Change in cash & cash eq	**(598)**	**6,254**	**4,261**	**4,919**
Opening cash & cash eq	**4,249**	**16,238**	**20,499**	**25,418**
Closing cash & cash eq	3,651	22,491	24,760	30,337
Closing cash & Bank Bal.	3,975	22,815	25,084	30,661
Free cash flow to firm	**5,719**	**7,288**	**4,921**	**5,443**

Ratios				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
PER SHARE				
EPS INR	22.5	24.2	27.5	32.4
CEPS INR	25.5	24.7	25.7	28.3
Book Value INR	109.7	138.8	159.8	185.7
VALUATION				
EV / Net Sales	3.3	2.8	2.5	2.1
EV / EBITDA	20.6	18.2	16.2	13.2
P / E Ratio	30.0	27.9	24.5	20.8
P / BV Ratio	6.2	4.9	4.2	3.6
GROWTH YOY%				
Sales Growth	10.1	0.2	1.1	9.0
EBITDA Growth	24.5	(3.3)	1.5	10.5
Net Profit Growth	29.3	(1.5)	5.7	10.0
Gross Fixed Asset Growth	17.5	16.1	15.1	15.3
PROFITABILITY				
Gross Profit/ Net sales ((%)	42.2	42.3	42.6	43.3
EBITDA / Net Sales (%)	15.8	15.3	15.4	15.6
EBIT / Net sales(%)	14.2	14.0	14.3	14.5
NPM / Total income (%)	11.8	11.6	12.2	12.3
ROE (%)	20.5	17.4	17.2	17.4
ROCE (%)	26.9	22.8	22.5	22.8
Tax / PBT %	25.3	24.7	24.7	24.7
TURNOVER				
Net Woking Cycle	52	37	41	46
Debtors Velocity (Days)	72	60	64	69
Inventory (Days)	-	-	-	-
Creditors Velocity (Days)	19	23	23	23
Current Ratio	3.7	4.4	4.6	4.7
Quick Ratio	3.7	4.4	4.6	4.7
LIQUIDITY				
Gross Asset Ratio	6.5	5.6	5.2	5.0
Total Asset Ratio	1.3	1.2	1.1	1.2
Net Debt-Equity Ratio	(0.5)	(0.7)	(0.7)	(0.7)
Interest Coverage	42.9	52.1	60.2	68.8
PAYOUT				
Payout %	28.7	26.9	23.6	20.1
Per share	6.5	6.5	6.5	6.5
Yield %	1.0	1.0	1.0	1.0

Source: Arihant Research, Company Filings

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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%

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