

CMP: INR 268

Rating: Buy

Target Price: INR 343

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)	7,43,569
52w H/L (INR)	501/ 262
Avg Yearly Vol (in 000')	2462

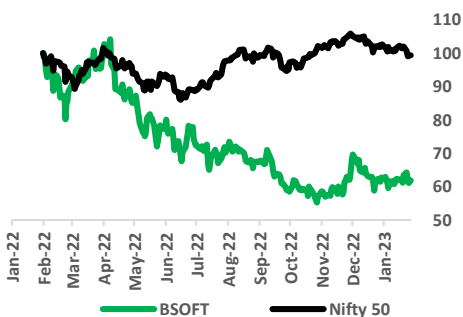
Shareholding Pattern %

(As on Dec, 2022)

Promoters	41.32
FII	12.40
DII	20.10
Public & Others	27.00

Stock Performance (%)	1m	3m	12m
Birlasoft	-8.71	-20.1	-42.4
Nifty 50	-3.41	1.28	0.29

Birlasoft Vs Nifty 50



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Birlasoft(BSFOT) Ltd in Q3FY23, Weak set of numbers led by one-time provisioning: The company has reported consolidated revenue of INR 12,219Mn, +14% YoY/5.8% QoQ in Q3FY23 against our estimate of INR 12,113 Mn backed by strong growth in BFSI, Manufacturing, and Energy & Utilities. BFSI grew by 29.8% YoY/7.9% QoQ, Manufacturing grew by 16.3% YoY/0.3% QoQ, and Energy & Utilities grew by 1.7%QoQ/7.4% YoY. Increase in other expenses was due to the creation of a provision related to the bankruptcy of Invacare Corporation and amounted to INR 1,510.14 mn against outstanding receivables and contract assets as on 31 December 2022.

Lower Margin with our estimates led by higher other expenses: Consolidated EBIT stood at INR -136Mn against our estimate of INR +1,583 Mn due to the last leg of the wage hike and also some hiring on the top management front. On the margins front, the EBIT margin came at -1.1% against our estimate of 13.1%. Excluding provisioning related to bankruptcy, the operating Margin stood at 13.4%. We believe, will see further margin expansion as the company ended Q3FY23 with a total headcount of 12,530, which is a growth of 5% y/y. But more importantly, attrition, has been improving attrition in Q3 stood at 25.5% and this is an improvement of 27.9% in Q1 and 27.4% in Q2 as the attrition levels get better.

Healthy TCV Deal wins: The company signed deals of TCV \$ 231 M during the quarter which represents a 39% growth quarter-over quarter and 27% growth y/y and TCV new deal wins of \$ 102 M (Funnel size is going up as the company sign lot of new contracts and the company has 3 good deals).

Valuations

Birlasoft reported a disappointing operating performance in Q3FY23 and the reported performance was further accentuated by one-off provisions. The exact financial impact of bankruptcy filings by Invacare remains unpredictable currently. Birlasoft has made a provision of INR 1.5bn against the outstanding receivables and contract assets and is taking legal advice on the matter. The company expects margin expansion and better growth in the top line front in Q4 led by strong new deals and no furloughs. It targets to return to ~15% EBITDA margin going forward. We have cut EPS estimates by 15-40% for FY23E-FY25E. **We expect revenue growth at a CAGR of 18.4% during FY23E-25E. We value Birlasoft at a PE of 15x its FY25E EPS of INR 22.9, which yields a target price of INR 343 per share and we assign a BUY rating on the stock.**

Y/E Mar	FY22	FY23E	FY24E	FY24E
Revenue in USD mn	534	599	700	808
yoy (%)	11.3	12.1	17.0	15.4
Sales	41,304	47,850	57,413	67,063
yoy (%)	16.2	15.9	20.0	16.8
EBITDA	6,401	5,290	8,305	10,458
Reported PAT	4,638	3,478	5,444	6,875
yoy (%)	44.5	(25.0)	56.5	26.3
EBITDAM (%)	15.5	11.1	14.5	15.6
EPS	16.7	12.5	19.6	22.9
PE (x)	15.3	20.3	13.0	11.2

Source: Arihant Research, Company Filings

Q3FY23 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	148.40	148.6	221.6	-0.1%	-33.0%
Net Revenue	12,219	11,544	10,719	5.8%	14.0%
Employee cost	7,320	6,579	6,067	11.3%	20.6%
Other Expenses	4,826	3,268	3,024	47.7%	59.6%
EBITDA	74	1,698	1,628	-95.7%	-95.5%
EBITDA margin %	0.6%	14.7%	15.2%	-	-
Depreciation	210	196	188	6.9%	11.9%
EBIT	-136	1,502	1,440	-109.1%	-109.5%
EBIT margin %	-1.1%	13.0%	13.4%	-	-
Other Income	124	155	128	-20.1%	-3.1%
Finance costs	56	33	31	71.0%	77.4%
PBT	-68	1,624	1,536	-	-
Tax Expense	95	417	397	-77.1%	-76.0%
Effective tax rate %	-139.5%	25.7%	25.8%	-	-
PAT	-163.6	1,207.2	1,140	-113.6%	-114.4%
MI & Associates	-	-	-	-	-
Consolidated PAT	-163.61	1,207	1,140	-113.6%	-114.4%
Exceptional item	-	-	-	-	-
Reported PAT	-163.61	1,207	1,140	-113.6%	-114.4%
PAT margin %	-1.3%	10.5%	10.6%	-	-
EPS (INR)	-0.6	4.3	4.1	-113.8%	-114.5%

Particulars (in INR million)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	2,452	2,273	1,889	7.9%	29.8%
Manufacturing	5,627	5,608	4,837	0.3%	16.3%
Energy and Utilities	1,693	1,665	1,577	1.7%	7.4%
Life Sciences	2,448	2,375	2,417	3.1%	1.3%

Source: Arianth Research, Company Filings

Q3FY23 Conference call highlights

- The management believes that tech spending will be strong.
- The company builds a relationship with the client on a long-term basis and will continue to reinforce it for a better future.
- Operationally Q4FY23 will be stronger than Q3FY23 led by consistency execution and more visibility
- Increase in other expenses was due to the creation of a provision related to the bankruptcy of Invacare Corporation and amounted to INR 1,510.14 mn against outstanding receivables and contract assets as on 31 December 2022. A good deal wins and continually improves on cash flow. CC terms were flat QoQ/up 5.5% YoY. Excluding provisioning related to bankruptcy, the operating Margin stood at 13.4%. Also the last leg of the wage hike and also some hiring on the top management front.
- The company is in discussion with the legal team for Invacare as they have filed a petition for relief under Chapter 11 of the Bankruptcy Code.
- Invacare Corporation contributes <3% of the revenue in knock it off Q3FY23 and it will be zero in Q4FY23 (As no revenue recognition in Q4FY23). The company has few customers given the advance and set off in the same quarter. Two months of billed plus unbilled is resulting in almost INR120 crore of provision.
- Segments: BFSI grew by 29.8% YoY/7.9% QoQ and did well during the quarter. The company has got very good clients in financial services and will be going to do very well and continue in the growth trajectory. The company will have a new leader for Manufacturing and Utility. Hi-tech, is a big focus area for the company, and management believes that they will see a turnaround soon.
- Active Client Count at 299 in Q3, > \$ 1 M customers at 83, up by 6 YoY. > \$ 5 M customers at 24, up by 3 YoY. Top clients led growth - Revenue from Top 5, Top 10, and Top 20 clients grew YoY by 12.3%, 9.1%, and 8.6% respectively. The company's Top account contributes 60% of revenue. The company's Top 20 client is growing.
- DSO continues to be best-in-class at 55 days vs 56 in Q2FY23. The company will be going to have the best DSO. Also, doing decent on the collection front.
- Attrition (LTM) of 25.5% against 27.4% in Q2FY23.
- Subcon declines in Q3FY23 as compared to Q2FY23.
- Signed deals of TCV \$ 231 M during the quarter and TCV new deal wins of \$ 102 M (Funnel size is going up as the company sign lot of new contracts). Strong cash flow generation with highest-ever quarterly collections.
- Guidance: The company continues to strengthen its position as a domain and enterprise digital capability-led player. The business is fundamentally robust and they are making the investments necessary for future growth, which makes the company confident about the outlook going forward. There is no one-time expense in Q4FY23 and uplift is expected in Q4FY23.
- Margin hit due to higher furlough and some expenses. Expect margin expansion in Q4FY23 led by 1) Q4 will be the longer quarter and no furlough. Also, some investments that the company made will benefit the margin. The company targets delivering a 15% margin and on the long-term trajectory to get to 18%
- The company will execute QoQ organically and will look at if there is an inorganic necessity. The current focus will be to execute top-line growth and margin growth and create positive cash flow q/q.

USD Revenues (\$ Mn)	128.4	115.6	143.4	146.4	148.6	148.8	148.4
QoQ growth %	4.1%	-10.0%	24.0%	2.1%	1.5%	3.3	-0.3
USD/INR	73.6	87.5	74.7	75.2	77.7	80.1	82.3
Client Geography	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Americas	103.6	95.0	118.9	120.3	126.2	125.1	124.2
% contribution	80.7%	82.2%	82.9%	82.2%	84.9%	84.1%	83.7%
qoq	6.4%	-8.3%	25.1%	1.2%	4.8%	-0.8%	-0.7%
yoy	14.6%	6.6%	27.0%	23.5%	21.8%	31.7%	4.5%
Europe	15.2	12.1	15.3	16.4	13.7	14.3	15.3
% contribution	12%	11%	11%	11%	9%	10%	10%
qoq	-1.7%	-19.9%	26.4%	6.9%	-16.6%	4.5%	7.0%
yoy	-16.1%	-21.1%	-1.2%	6.4%	-9.8%	17.7%	-0.4%
Rest of the World	9.6	8.4	9.2	9.7	8.8	9.4	8.9
% contribution	7.5%	7.3%	6.4%	6.6%	5.9%	6.3%	6.0%
qoq	-8.1%	-12.4%	8.8%	5.3%	-9.3%	6.9%	-5.0%
yoy	-24.3%	-24.0%	-11.7%	-7.8%	-9.0%	11.1%	-3.0%
Total	100.0%	100.0%	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	28.4	29.8
% contribution	17.5%	18.1%	17.7%	17.2%	17.8%	19.1%	20.1%
qoq	-0.4%	-6.9%	21.3%	-0.8%	5.0%	7.4%	5.0%
yoy	6.5%	-3.2%	13.6%	11.6%	17.7%	35.8%	17.5%
Energy & Utilities	19.1	16.5	21.2	22.1	21.2	21.0	20.6
% contribution	14.9%	14.3%	14.8%	15.1%	14.3%	14.1%	13.9%
qoq	4.8%	-13.6%	28.4%	4.2%	-3.9%	-1.3%	-1.7%
yoy	1.8%	-5.3%	20.0%	21.1%	11.1%	26.9%	-2.8%
Lifesciences	30.0	28.0	32.0	31.6	31.5	29.2	29.5
% contribution	23.4%	24.2%	22.3%	21.6%	21.2%	19.6%	19.9%
qoq	-0.9%	-6.9%	14.3%	-1.1%	-0.4%	-7.4%	1.3%
yoy	-13.9%	0.8%	9.7%	4.3%	4.9%	4.3%	-7.7%
Manufacturing	56.8	50.2	64.8	67.5	69.4	70.2	68.4
% contribution	44.20%	43.40%	45.20%	46.10%	46.70%	47.20%	46.10%
qoq	8.8%	-11.6%	29.2%	4.1%	2.8%	1.2%	-2.6%
yoy	21.9%	2.6%	28.8%	29.4%	22.3%	40.0%	5.5%
Business & Technology Transformation	47.6	42.7	52.6	53.4	57.4	59.4	62.6
% contribution	37.1%	36.9%	36.7%	36.5%	38.6%	39.9%	42.2%
qoq	8.8%	-10.5%	23.4%	1.5%	7.3%	3.5%	5.5%
yoy	22.8%	9.2%	30.7%	22.1%	20.4%	39.2%	19.0%
Enterprise Solutions	55.3	47.4	59.7	59.9	59.7	56.1	52.1
% contribution	43.1%	41.0%	41.6%	40.9%	40.2%	37.7%	35.1%
qoq	0.4%	-14.4%	25.9%	0.4%	-0.2%	-6.1%	-7.1%
yoy	-5.3%	-16.2%	8.1%	8.6%	7.9%	18.4%	-12.7%
Cloud & Base Services	25.4	25.5	31.1	33.1	31.5	22.5	22.8
% contribution	19.8%	22.1%	21.7%	22.6%	21.2%	21.2%	21.2%
qoq	4.1%	0.5%	21.8%	6.3%	-4.8%	-28.6%	1.3%
yoy	5.9%	27.7%	28.9%	35.5%	23.9%	-11.9%	-26.7%

Source: Arihant Research, Company Filings

Key Financials

Profit & Loss Account				
Y/E Mar	FY22	FY23E	FY24E	FY25E
Revenue in USD mn	534	599	700	808
Growth (%)	11.3%	12.1%	16.97%	15.4%
Net sales	41,304	47,850	57,413	67,063
Growth (%)	16.2%	15.9%	19.98%	16.8%
Consumption of materials	-	-	-	-
Staff Expenses	23,689	27,938	33,500	40,156
Other operating expenses	11,214	14,622	15,609	16,449
Total Expenditure	34,902	42,560	49,108	56,605
EBITDA	6,401	5,290	8,305	10,458
EBITDA Margin	15.50%	11.06%	14.46%	15.59%
Depreciation	765	854	1,320	1,542
Operating profit	5,636	4,437	6,984	8,915
Other income	662	588	645	670
EBIT	6,298	5,025	7,629	9,585
Interest	130	176	222	232
Exceptional items	-	-	-	-
Profit before tax	6,168	4,849	7,407	9,353
Tax	1,530	1,371	1,963	2,479
Share in profit of associate cos	-	-	-	-
Minority interest	-	-	-	-
Reported net profit	4,638	3,478	5,444	6,875
EO Items	-	-	-	-
Adjusted net profit	4,638	3,478	5,444	6,875
Share O/s mn	278	278	278	278
Adj. EPS Rs	16.7	12.5	19.6	22.9

Balance Sheet				
Y/E Mar	FY22	FY23E	FY24E	FY25E
APPLICATION OF FUNDS :				
Non Current Assets	9,500	9,091	9,245	9,413
Fixed Assets	1,562	1,579	1,579	1,579
Capital work in progress	17	-	-	-
Goodwill & other Intangibles	4,568	4,568	4,568	4,568
Noncurrent investment	552	-	-	-
Deferred tax assets	1,391	1,511	1,643	1,785
Long term loans and advances	162	170	179	188
Other non-current assets	1,249	1,262	1,277	1,293
Current Assets	24,333	26,931	32,717	39,065
Current investment	7,861	7,861	7,861	7,861
Inventories	-	-	-	-
Sundry debtors	8,488	8,742	9,800	11,447
Cash and bank	3,828	5,364	10,077	14,443
Short loans and advances	-	-	-	-
Others current assets	4,156	4,965	4,979	5,314
Total Assets	33,833	36,022	41,963	48,478
SOURCES OF FUNDS :				
Share Capital	559.0	559.0	559.0	559.0
Reserves	25,272	27,141	30,920	36,268
Total Shareholders Funds	25,831	27,700	31,479	36,827
Minority interest	-	-	-	-
Non-Current Liabilities	1,404	1,453	1,526	1,604
Other long term liabilities	912	912	930	948
Long-term provisions	492	542	596	655
Current Liabilities	6,599	6,869	8,958	10,047
Short term borrowings	-	-	-	-
Trade payables	2,095	1,966	3,618	4,226
Other current liabilities	4,108	4,487	4,904	5,362
Short term provisions	396	416	437	459
Total Equity & Liabilities	33,833	36,022	41,963	48,478

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement				
Y/E Mar	FY22	FY23E	FY24E	FY25E
PBT	6,168	4,849	7,407	9,353
Non-cash adjustments	233	442	898	1,104
Changes in working capital	(2,436)	(785)	1,024	(884)
Tax Paid	(1,828)	(1,457)	(2,056)	(2,580)
Cashflow from operations	2,137	3,048	7,273	6,993
Capital expenditure	(1,043)	(854)	(1,320)	(1,542)
Change in investments	(2,704)	552	-	-
Other investing cashflow	1,488	77	630	654
Cashflow from investing	(2,260)	(225)	(690)	(889)
Issue of equity	4	-	-	-
Issue/repay debt	-	-	-	-
Interest Paid	(130)	(176)	(222)	(232)
Dividends paid	(1,109)	(1,110)	(1,665)	(1,526)
Other financing cashflow	(89)	(0)	18	19
Cashflow from financing	(1,323)	(1,286)	(1,869)	(1,740)
Change in cash & cash eq	(1,446)	1,537	4,713	4,365
Opening cash & cash eq	5,274	3,828	5,364	10,077
Closing cash & cash eq	3,828	5,364	10,077	14,443
Closing cash & Bank Bal.	4,750	6,287	11,000	15,365
Free cash flow to firm	1,094	2,194	5,952	5,451
Ratios				
Y/E Mar	FY22	FY23E	FY24E	FY25E
PER SHARE				
EPS INR	16.7	12.5	19.6	22.9
CEPS INR	19.5	15.6	24.4	28.0
Book Value INR	93.1	99.8	113.4	132.7
VALUATION				
EV / Net Sales	1.4	1.2	0.9	0.7
EV / EBITDA	9.2	10.9	6.4	4.6
P / E Ratio	15.3	20.3	13.0	11.2
P / BV Ratio	2.7	2.6	2.2	1.9
GROWTH YOY%				
Sales Growth	16.2	15.9	20.0	7.8
EBITDA Growth	20.9	(17.4)	57.0	16.2
Net Profit Growth	44.5	(25.0)	56.5	16.6
Gross Fixed Asset Growth	15.9	15.9	18.9	18.6
PROFITABILITY				
Gross Profit/ Net sales (%)	42.6	41.6	41.7	40.1
EBITDA / Net Sales (%)	15.5	11.1	14.5	15.6
EBIT / Net sales(%)	13.6	9.3	12.2	13.3
NPM / Total income (%)	11.2	7.3	9.5	10.3
ROE (%)	18.0	12.6	17.3	18.7
ROCE (%)	23.1	17.2	23.1	24.9
Tax / PBT %	24.8	28.3	26.5	26.5
TURNOVER				
Net Working Cycle	60	52	39	44
Debtors Velocity (Days)	75	67	62	67
Creditors Velocity (Days)	15	15	23	23
Current Ratio	3.7	3.9	3.7	3.9
Quick Ratio	3.7	3.9	3.7	3.9
LIQUIDITY				
Gross Asset Ratio	6.9	6.9	6.9	5.8
Total Asset Ratio	1.2	1.3	1.4	1.4
Net Debt-Equity Ratio	(0.5)	(0.5)	(0.6)	(0.6)
Interest Coverage	48.4	28.5	34.3	41.3
PAYOUT				
Payout %	26.9	47.9	28.0	22.2
Per share	4.5	6.0	5.5	5.5
Yield %	1.8	2.4	2.2	2.2

Source: Arianth 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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