

Exceptional execution

CMP: INR 823

Rating: Accumulate

Target Price: INR 929

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)	221,729
52w H/L (INR)	827/ 250
Avg Yearly Vol (in 000')	2515

Shareholding Pattern %

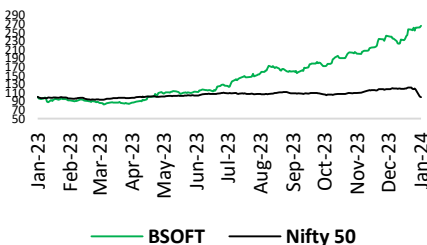
(As on Dec, 2023)

Promoters	40.95
FII	21.25
DII	20.16
Public & Others	17.64

Stock Performance (%)

	1m	3m	12m
Birlasoft	8.8	53.2	163.5
Nifty 50	0.08	10.8	17.9

Birlasoft Vs Nifty 50



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Birlasoft(BSFOT) remains our top pick in the IT sector, consistently outperforming the industry. The company posted Impressive set of Nos and New deal wins remain muted as expected. Birlasoft reported Q3FY24 revenues of USD 161.3 mn up 1.9% QoQ/8.7% YoY versus (Our estimate of USD 160 Mn). Constant currency (CC) revenue growth is up 1.8% QoQ above estimate of 1.6%. The company has reported consolidated revenue of INR 13,430 Mn, 9.9% YoY/ 2.5% QoQ in Q3FY24 above (Our estimate of INR 13,318 Mn) backed by better all service lines and by E&U, Manufacturing and Lifesciences & Services (LLS) among verticals. Segment: Decent growth in BFSI, Manufacturing, Energy& Utilities and LSS. BFSI grew by 13% YoY/ 0.1% QoQ, Manufacturing de-grew by -2.2% YoY/ +2.1% QoQ, and Energy & Utilities grew by 8.6%QoQ/ 14.7% YoY and Life science grew by 31.3% YoY/1.9% QoQ. Consolidated EBIT stood at INR 1,932 Mn against (Our estimate of INR 1,796 Mn). On the margins front, the EBIT margin came at 14.4% against (Our estimate of 13.49%) expansion by 14bps QoQ despite the wage hike. Consolidated PAT stood at INR 1,610.5 Mn, against (Our estimate of INR 1,417 Mn) registered growth of 11% QoQ. The order booking for Q3FY24, was at \$94 mn in TCV (De-growth 44%QoQ/~8% YoY) and renewals of \$ 124 Mn. DSO decreased by 1 Day to 51 Days led strong collections. LTM attrition down 240bps QoQ at 12.6%. Headcount 12,356 down 1.4% YoY/ +0.3% QoQ. IT Utilization improved by 60bps QoQ/310bps YoY at 87.1%. Offshore revenue 54.2% against 51.2% in Q2FY24.

Margin expansion in Q3FY24 despite wage hike: The EBIT margin surpassed expectations at 14.4% (against our estimate of 13.49%), absorbing a substantial portion of organization-wide compensation hikes effective from September 1, FY23, with the full impact reflected in Q3 after a one-month impact in Q2. Utilization at 87% and various operational levers in play have yielded initial wins. Ongoing efforts to identify opportunities continue, and stability is expected in the margin.

Strong Deal wins singing: Signed deals of TCV \$ 218 M during the quarter with TCV new deal wins of \$ 94 M and renewals of \$ 124 M. TCV too have been robust, comprising both renewals as well as net new engagements. The pipeline is robust and promising for Q4FY24.

Valuations

Birlasoft delivered robust Q3FY24 results, driven by exceptional deal execution. The company is strategically realigning its business, emphasizing delivery, client relationships, sales investments, and leadership recruitment for vertical growth. We anticipate consecutive quarterly growth, primarily led by the BFSI sector and ERP business strength. The medium-term margin target is to sustain at current level. We anticipate a 20% CAGR in revenue growth from FY23 to FY26E. Our valuation, based on a PE of 32x FY26E EPS of INR 29, yields a revised target price of INR 929 per share (Earlier TP INR 628 per share), and we maintain an "Accumulate" rating on the stock.

Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

Particulars (in INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	161.30	158.30	148.40	1.9%	8.7%
Net Revenue	13,430	13,099	12,219	2.5%	9.9%
Employee cost	7,934	7,441	7,320	6.6%	8.4%
Other Expenses	3,352	3,586	4,826	-6.5%	-30.5%
EBITDA	2,143	2,071	74	3.4%	0.0%
EBITDA margin %	16.0%	15.8%	0.6%	14bps	-
Depreciation	211	215	210	-2.1%	0.3%
EBIT	1,932	1,856	-136	4.1%	0.0%
EBIT margin %	14.4%	14.2%	-1.1%	22bps	-
Other Income	282	156	124	81.0%	-
Finance costs	60	57	56	4.6%	7.0%
PBT	2,154	1,955	-68	-	-
Tax Expense	544	504	95	7.8%	-
Effective tax rate %	25.2%	25.8%	-139.5%	-	-
PAT	1,610.58	1,450.77	-163.6	11.0%	-1084.4%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,610.58	1,450.77	-163.61	11.0%	-
Exceptional item	-	-	-	-	-
Reported PAT	1,610.58	1,450.77	-163.61	11.0%	-
PAT margin %	87.1%	86.5%	84.0%	60bps	310bps
EPS (INR)	5.8	5.2	-0.6	11.1%	-

Particulars (in INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	2,770	2,766	2,452	0.1%	13.0%
Manufacturing	5,504	5,393	5,627	2.1%	-2.2%
Energy and Utilities	1,942	1,788	1,693	8.6%	14.7%
Life Sciences	3,213	3,152	2,448	1.9%	31.3%

Source: Arihant Research, Company Filings

Birlasoft Q3FY24- Concall KTAs

Strategy of leveraging strengths, retaining, and mining existing accounts is reflected in robust deal flows and substantial growth, with a 9% increase in total TCv for 9MFY24 compared to FY23, as the company aims to wrap up Q4 with sequentially higher deal TCv signings, positioning them strongly for the upcoming fiscal year.

ERP: The ERP service line sustained a sequential growth of 0.5% in Q3, while the data and analytics sector exhibited a stronger growth of 1.1% sequentially. SAP is clear opportunity

Margin: Expansion in margin 14bps QoQ as absorbed the impact of a two-month increment in wage hikes. Due to top-line growth and the initiation of new deals, due to E&U clients has significantly contributed to a positive margin impact.

BFSI: In the BFSI sector, the company experienced furloughs, yet successfully mitigated some impact through short-term projects and strategic change requests initiated with customers. Regarding SAP, it represents a significant opportunity. Whether it be large corporations or mid-tier companies in the US, Europe, or the UK, there will be enormous amounts of spend going forward in terms of the (S/4 HANA transition).

Project: The company maintains a stable business with annuity contracts while actively engaging in ongoing tech and digital transformation initiatives with clients. Additionally, the company undertakes short-term projects to assist clients in executing critical programs as needed, varying from QoQ and customer to customer, such as supporting manufacturing clients in a particular quarter.

TCV: TCv for Q3FY24 amounted to 94 million, impacted by a shorter quarter, but the pipeline is robust and promising for Q4FY24. The company evaluates its business through three fundamental categories: existing renewal, existing new, and net new, with each playing a crucial role in the comprehensive assessment of the operations.

Added significant revenue through existing new projects, actively pursuing additional opportunities. Emphasizing strategic growth, prioritizing mining existing accounts, reflecting positively in revenue optics, and serving as a key engine for continued expansion.

Client: Both top 10 and top 20 client lists have demonstrated a QoQ growth of 3.5%.

Furloughs: Offsetting the impact of Q3 furloughs with specific short-term projects, the company anticipates a potential bounce-back in the Q4FY24, as typically expected.

Subcontractor utilization decreased due to a high number of furloughs and employees transitioning away.

Exhibit 3: Key Operating Metrics

Revenue by Industry Verticals	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
BFSI	22.5	20.9	25.4	25.2	26.5	28.4	29.8	30.6	31.8	33.4	33.2
% contribution	17.5%	18.1%	17.7%	17.2%	17.8%	19.1%	20.1%	20.5%	20.7%	21.1%	20.6%
qoq	-0.4%	-6.9%	21.3%	-0.8%	5.0%	7.4%	5.0%	2.5%	4.0%	5.1%	-0.5%
yoy	6.5%	-3.2%	13.6%	11.6%	17.7%	35.8%	17.5%	21.4%	20.2%	17.5%	11.4%
Energy & Utilities	19.1	16.5	21.2	22.1	21.2	21.0	20.6	22.2	22.0	21.7	23.4
% contribution	14.9%	14.3%	14.8%	15.1%	14.3%	14.1%	13.9%	14.9%	14.3%	13.7%	14.5%
qoq	4.8%	-13.6%	28.4%	4.2%	-3.9%	-1.3%	-1.7%	7.7%	-1.1%	-1.3%	7.8%
yoy	1.8%	-5.3%	20.0%	21.1%	11.1%	26.9%	-2.8%	0.5%	3.4%	3.4%	13.4%
Lifesciences	30.0	28.0	32.0	31.6	31.5	29.2	29.5	26.2	37.5	38.0	38.6
% contribution	23.4%	24.2%	22.3%	21.6%	21.2%	19.6%	19.9%	17.6%	24.4%	24.0%	23.9%
qoq	-0.9%	-6.9%	14.3%	-1.1%	-0.4%	-7.4%	1.3%	-11.1%	42.8%	1.4%	1.5%
yoy	-13.9%	0.8%	9.7%	4.3%	4.9%	4.3%	-7.7%	-17.0%	19.0%	30.3%	30.5%
Manufacturing	56.8	50.2	64.8	67.5	69.4	70.2	68.4	70.2	62.5	65.1	66.3
% contribution	44.20%	43.40%	45.20%	46.10%	46.70%	47.20%	46.10%	47.10%	40.70%	41.10%	41.10%
qoq	8.8%	-11.6%	29.2%	4.1%	2.8%	1.2%	-2.6%	2.7%	-11.0%	4.1%	1.9%
yoy	21.9%	2.6%	28.8%	29.4%	22.3%	40.0%	5.5%	4.1%	-9.9%	-7.4%	-3.1%
Revenue by Service Offerings				Q1FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24			
Data & Analytics				38.3	41.6	41.0	40.5	41.0	40.5	41.0	41.0
% contribution				25.8%	27.90%	26.70%	25.60%	25.60%	25.60%	25.60%	25.40%
Digital & Cloud				41.6	47.3	48.4	54.1	55.2	54.1	55.2	55.2
% contribution				28.0%	31.70%	31.50%	34.20%	34.20%	34.20%	34.20%	34.20%
ERP				47.8	41.7	44.0	43.7	44.1	43.7	44.1	44.1
% contribution				37.9%	32.80%	33.40%	32.20%	31.90%	32.20%	31.90%	31.90%
Infrastructure				12.5	11.3	12.9	12.5	13.7	12.5	13.7	13.7
% contribution				8.4%	7.60%	8.40%	7.90%	8.50%	7.90%	8.50%	8.50%
Revenues by Contract Type											
Time & Material	41.6%	43.0%	41.8%	39.3%	40.8%	40.2%	39.20%	38.30%	38.50%	39.10%	37.30%
Fixed Price, Fixed Monthly	58.4%	57.0%	58.2%	60.7%	59.2%	59.8%	60.8%	61.7%	61.5%	60.9%	62.7%
Revenues Mix											
Onsite	51.4%	50.8%	50.5%	50.1%	51.1%	48.0%	48.9%	48.6%	49.0%	48.8%	45.8%
qoq	-0.7%	-11.0%	23.3%	1.3%	3.5%	-5.9%	1.6%	-0.1%	3.9%	2.6%	-4.4%
yoy											
Offshore	48.6%	49.2%	49.5%	49.9%	48.9%	52.0%	51.1%	51.4%	51.0%	51.2%	54.2%
qoq	9.8%	-8.9%	24.8%	2.9%	-0.5%	6.5%	-2.0%	1.1%	2.2%	3.5%	7.9%
yoy											
Deal Wins - New											
New Total Contract Value (TCV) - in \$ Mn	94	104.0	121.0	125	112	138	102	114	80	167	94
Currency Mix of Revenue											
USD	81.0%	83.4%	85.2%	84.5%	86.2%	85.7%	84.9%	86.3%	84.5%	87.1%	86.9%
GBP	1.6%	1.4%	1.5%	1.5%	1.5%	1.7%	1.7%	2.1%	4.3%	2.4%	2.6%
EUR	6.9%	5.4%	4.6%	5.2%	3.7%	4.2%	5.0%	3.3%	3.0%	2.8%	3.1%
Others	10.5%	9.8%	8.7%	8.7%	8.6%	8.5%	8.4%	8.4%	8.2%	7.7%	7.5%

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Account					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
Revenue in USD mn	534	595	648	744	829
Growth (%)	11.3%	11.4%	8.85%	15.0%	11.4%
Net sales	41,304	47,571	53,451	61,964	69,016
Growth (%)	16.2%	15.2%	12.36%	15.9%	11.4%
Consumption of materials	-	-	-	-	-
Staff Expenses	23,689	27,771	30,922	36,078	40,130
Other operating expenses	11,214	14,661	14,066	15,579	16,554
Total Expenditure	34,902	42,432	44,988	51,657	56,683
EBITDA	6,401	5,139	8,463	10,307	12,332
EBITDA Margin	15.50%	10.80%	15.83%	16.63%	17.87%
Depreciation	765	812	782	779	760
Operating profit	5,636	4,327	7,680	9,529	11,572
Other income	662	410	758	880	970
EBIT	6,298	4,737	8,438	10,409	12,542
Interest	130	160	218	173	180
Exceptional items	-	-	-	-	-
Profit before tax	6,168	4,576	8,220	10,236	12,362
Tax	1,530	1,204	2,062	2,559	2,967
Share in profit of associate cos	-	-	-	-	-
Minority interest	-	-	-	-	-
Reported net profit	4,638	3,373	6,158	7,677	9,395
EO Items	-	-	-	-	-
Adjusted net profit	4,638	3,373	6,158	7,677	9,395
Share O/s mn	278	278	278	278	278
Adj. EPS INR	16.7	12.2	22.2	25.5	29.0

Balance Sheet					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
APPLICATION OF FUNDS :					
Non Current Assets	9,500	9,127	9,728	10,542	12,145
Fixed Assets	1,562	1,615	2,062	2,709	4,128
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	26,590	32,406	38,837	46,160
Current investment	7,861	7,861	7,861	7,861	7,861
Inventories	-	-	-	-	-
Sundry debtors	8,488	8,691	9,123	10,576	11,780
Cash and bank	3,828	5,078	10,485	15,141	20,954
Short loans and advances	-	-	-	-	-
Others current assets	4,156	4,960	4,937	5,258	5,565
Total Assets	33,833	35,716	42,134	49,379	58,305
SOURCES OF FUNDS :					
Share Capital	559.0	549.7	551.1	551.1	551.1
Reserves	25,272	26,856	31,348	37,499	45,368
Total Shareholders Funds	25,831	27,405	31,899	38,050	45,919
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	8,709	9,726	10,698
Short term borrowings	-	-	-	-	-
Trade payables	2,095	1,955	3,368	3,905	4,349
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	35,716	42,134	49,379	58,305

Source: Arhant Research, Company Filings

Key Financials

Cash Flow Statement

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,168	4,576	8,220	10,236	12,362
Non-cash adjustments	233	563	243	72	(30)
Changes in working capital	(2,436)	(741)	1,450	(749)	(528)
Tax Paid	(1,828)	(1,290)	(2,156)	(2,660)	(3,077)
Cashflow from operations	2,137	3,108	7,756	6,898	8,728
Capital expenditure	(1,043)	(849)	(1,229)	(1,425)	(2,180)
Change in investments	(2,704)	552	-	-	-
Other investing cashflow	1,488	(101)	743	864	952
Cashflow from investing	(2,260)	(398)	(486)	(561)	(1,228)
Issue of equity	4	(9)	1	-	-
Issue/repay debt	-	-	-	-	-
Interest Paid	(130)	(160)	(218)	(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)	(1,280)	(1,864)	(1,681)	(1,687)
Change in cash & cash eq	(1,446)	1,430	5,407	4,657	5,813
Opening cash & cash eq	5,274	3,828	5,078	10,485	15,141
Closing cash & cash eq	3,828	5,258	10,485	15,141	20,954
Closing cash & Bank Bal.	4,750	6,180	11,407	16,063	21,876
Free cash flow to firm	1,094	2,259	6,527	5,473	6,548

Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
PER SHARE					
EPS INR	16.7	12.2	22.2	25.5	29.0
CEPS INR	19.5	15.1	25.0	28.1	31.4
Book Value INR	93.1	98.8	115.0	137.1	165.5
VALUATION					
EV / Net Sales	5.2	4.5	3.9	3.3	2.9
EV / EBITDA	33.9	41.9	24.8	19.9	16.2
P / E Ratio	49.2	67.7	37.1	32.2	28.4
P / BV Ratio	8.8	8.3	7.2	6.0	5.0
GROWTH YOY%					
Sales Growth	16.2	15.2	12.4	7.0	3.4
EBITDA Growth	20.9	(19.7)	64.7	12.4	11.1
Net Profit Growth	44.5	(27.3)	82.6	15.1	13.6
Gross Fixed Asset Growth	15.9	15.8	17.6	17.4	16.5
PROFITABILITY					
Gross Profit/ Net sales (%)	42.6	41.6	42.1	41.8	41.9
EBITDA / Net Sales (%)	15.5	10.8	15.8	16.6	17.9
EBIT / Net sales(%)	13.6	9.1	14.4	15.4	16.8
NPM / Total income (%)	11.2	7.1	11.5	12.4	13.6
ROE (%)	18.0	12.3	19.3	20.2	20.5
ROCE (%)	23.1	16.4	25.2	26.2	26.3
Tax / PBT %	24.8	26.3	25.1	25.0	24.0
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	4.0	4.3
Quick Ratio	3.7	3.9	3.7	4.0	4.3
LIQUIDITY					
Gross Asset Ratio	6.9	6.8	6.5	5.6	5.5
Total Asset Ratio	1.2	1.3	1.3	1.3	1.2
Net Debt-Equity Ratio	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Interest Coverage	48.4	29.5	38.7	60.2	69.7
PAYOUT					
Payout %	26.9	49.4	24.8	19.9	16.2
Per share	4.5	6.0	5.5	5.5	5.5
Yield %	0.5	0.7	0.7	0.7	0.7

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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