

Sharp margin deterioration; deal-wins muted

Information Technology ▶ Result Update ▶ October 24, 2024

TARGET PRICE (Rs): 670

Birlasoft saw a mixed performance in Q2FY25. Company saw sequential revenue growth returning, after the weak show in Q1; revenue was up 2.6% QoQ, broadly akin to our estimate. But EBITDA margin slumped by 260bps QoQ to 12.1%, well below our estimate of 14.7% on planned investments in tech and domain capabilities as well as in partnerships, and due to high upfront investments required for consolidation deals with onshore presence initially. Margin is expected to remain muted in Q3 too, with the company undertaking wage hikes (expected impact: ~150bps) given improvement from Q4. Deal-win TCV was weak, down 19.3% YoY on TTM basis, as client decision-making is still delayed. TCV is expected to improve in H2. While there are some green shoots, more clarity is likely to emerge only by end-CY24. Revenue momentum should sustain despite seasonal weakness in H2FY25. We cut FY25-27E EPS 5-16%, factoring in the lower margin; also, we trim our target multiple to 25x (from 26x), but retain ADD with reduced TP of Rs670, given undemanding valuations.

Birlasoft: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	47,948	52,781	55,081	62,009	70,296
EBITDA	5,205	8,362	7,052	8,687	10,894
Adj. PAT	3,316	6,238	5,304	6,451	8,233
Adj. EPS (Rs)	11.9	22.1	18.8	22.9	29.2
EBITDA margin (%)	10.9	15.8	12.8	14.0	15.5
EBITDA growth (%)	(18.7)	60.7	(15.7)	23.2	25.4
Adj. EPS growth (%)	(27.1)	86.6	(14.9)	21.6	27.6
RoE (%)	13.2	22.7	16.5	18.0	20.2
RoIC (%)	26.6	46.9	37.8	44.9	53.8
P/E (x)	50.6	27.2	32.0	26.3	20.6
EV/EBITDA (x)	30.1	18.2	21.2	16.8	13.0
P/B (x)	6.8	5.6	5.0	4.5	3.9
FCFF yield (%)	3.0	4.2	2.8	3.5	4.3

Source: Company, Emkay Research

Results Summary

Revenue grew 2.6% QoQ (2.2% in cc) to USD163.3mn, broadly in line with our estimate of USD162.4mn. Growth was driven by ramp-ups in some projects that had been delayed earlier, better account mining, and incremental business from consolidation deals where the company has gained wallet share. Among verticals, Manufacturing, E&U, and BFSI grew 4.7%, 4.6%, and 1.3% QoQ, respectively, while Lifesciences declined 1.2%. Among services, Digital & Data and ERP saw growth of 6.5% and 4.4% QoQ, respectively, while Infra declined 18.9% QoQ. EBITDAM declined by 260bps QoQ to 12.1%, well below our estimate of 14.7%. Deal-win TCV stood at USD136m in Q2 (book-to-bill: 0.8x). Net new deal wins are worth USD89mn vs USD94mn in Q1. Total headcount declined 2.2% QoQ to 12,578. Attrition inched up marginally, to 11.8% from 11.6% in Q1. **What we liked:** Return to sequential revenue growth, relatively broad-based recovery in growth. **What we did not like:** Sharp miss on margin, weak deal-wins.

Earnings Call KTAs

1) Management does not foresee any material change in the demand environment, which continues to be challenging and is expected to continue till the US elections. 2) Company returned to sequential growth in Q2, and the management is hopeful of maintaining such growth momentum. Q3, however, will be facing seasonal furlough impact and is likely to remain muted, while the company heavily relies on a healthy Q4. 3) Growth was broad-based across verticals except in Lifesciences, which remains soft. Management expects the softness to persist for a few more quarters. 4) Margins were primarily impacted by increased onsite mix owing to ramp up of vendor consolidation deals, and by pricing pressure. Management has listed some levers that will aid margin improvement starting Q4 (as Q3 is likely to face a 150bps impact from wage hike) – offshoring, improving utilization (currently well below peak), price enhancement by existing customers, and quality of revenue improvement (like increasing digital mix), along with benefits from Project Optimus. 5) Mgmt is not satisfied with the lower deal wins in H1 and mainly attributes this to delay in decision making owing to the macro uncertainty. As a result, deals are pushed to Q3 and Q4 which should see an improved trend. The slowdown is not on account of losing any deal to a competitor. 6) ~50% of the deal-wins are new or net-new. It currently commands a win ratio of 30-32%, while aims for a higher 35-38% ratio. Mgmt has listed 2 key near-term focus areas – increasing deal flows, and improving margins (aspires achieving 15-16% in the next 4-6 quarters).

Target Price – 12M	Sep-25
Change in TP (%)	(10.7)
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	11.5
CMP (23-Oct-24) (Rs)	601.0

Stock Data	Ticker
52-week High (Rs)	862
52-week Low (Rs)	510
Shares outstanding (mn)	276.6
Market-cap (Rs bn)	166
Market-cap (USD mn)	1,977
Net-debt, FY25E (Rs mn)	-20,224
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	2,623.6
ADTV-3M (USD mn)	31.2
Free float (%)	59.0
Nifty-50	24,436
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	40.9
FPIs/MFs (%)	11.7/24.3

Price Performance

(%)	1M	3M	12M
Absolute	(4.7)	(16.9)	14.2
Rel. to Nifty	1.2	(16.8)	(9.9)

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Revenue (USD mn)	163.3	159.1	2.6	158.3	3.2
Net sales	13,682	13,274	3.1	13,099	4.5
Operating expenses	12,029	11,323		11,027	
EBITDA	1,653	1,951	-15.3	2,071	-20.2
Margins (%)	12.1	14.7	-260.0	15.8	(370.0)
Depreciation	222	206		215	
EBIT	1,431	1,745	-18.0	1,856	-22.9
Margins (%)	10.5	13.1	-270.0	14.2	(370.0)
Interest paid	67.9	42.0		56.9	
Forex Gains/(Losses)	51	8		-47	
Other income	283	337		203	
Pre-tax profit	1,697	2,049	-17.2	1,955	
Tax provided	422	547		504	
Profit after tax	1,275	1,502		1,451	
Emkay Net profit	1,275	1,502	-15.1	1,451	-12.1
EPS (Rs)	4.6	5.4	-15.2	5.2	-12.4

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (USD mn)	163	162	163	0.5%	0.0%	Revenue came in line with our expectations
Sales (Rs mn)	13,682	13,613	13,680	0.5%	0.0%	
EBIT	1,431	1,787	1,734	-19.9%	-17.5%	
EBIT margin	10.5%	13.1%	12.7%	-270 bps	-220 bps	EBITM missed expectations
PAT	1,275	1,481	1,464	-13.9%	-12.9%	PAT missed estimates due to weak operating performance

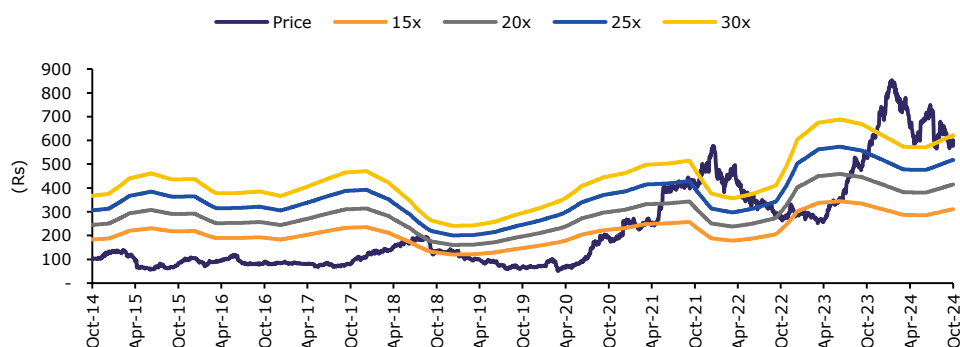
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New		Old	New		Old	New	
Revenue (USD mn)	656	657	0.1%	735	730	-0.7%	823	817	-0.7%
YoY growth (%)	3.0	3.2		12.0	11.0		12.0	12.0	
Revenue	55,001	55,081	0.1%	62,469	62,009	-0.7%	70,817	70,296	-0.7%
EBIT	7,525	6,184	-17.8%	9,048	7,715	-14.7%	10,298	9,838	-4.5%
EBIT margin (%)	13.7	11.2		14.5	12.4		14.5	14.0	
Net profit	6,257	5,304	-15.2%	7,538	6,451	-14.4%	8,719	8,233	-5.6%
EPS (Rs)	22.2	18.8	-15.2%	26.7	22.9	-14.3%	30.9	29.2	-5.5%

Source: Company, Emkay Research

Exhibit 4: BSOFT – One-year forward PER



Source: Company, Emkay Research

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Birlasoft: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	47,948	52,781	55,081	62,009	70,296
Revenue growth (%)	16.1	10.1	4.4	12.6	13.4
EBITDA	5,205	8,362	7,052	8,687	10,894
EBITDA growth (%)	(18.7)	60.7	(15.7)	23.2	25.4
Depreciation & Amortization	823	850	868	972	1,056
EBIT	4,382	7,512	6,184	7,715	9,838
EBIT growth (%)	(22.3)	71.4	(17.7)	24.8	27.5
Other operating income	0	0	0	0	0
Other income	228	1,035	1,198	1,260	1,544
Financial expense	186	199	222	257	257
PBT	4,424	8,348	7,160	8,718	11,126
Extraordinary items	0	0	0	0	0
Taxes	1,108	2,110	1,856	2,267	2,893
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,316	6,238	5,304	6,451	8,233
PAT growth (%)	(28.5)	88.1	(15.0)	21.6	27.6
Adjusted PAT	3,316	6,238	5,304	6,451	8,233
Diluted EPS (Rs)	11.9	22.1	18.8	22.9	29.2
Diluted EPS growth (%)	(27.1)	86.6	(14.9)	21.6	27.6
DPS (Rs)	3.5	6.5	7.0	8.0	9.5
Dividend payout (%)	29.1	29.0	36.7	34.4	32.1
EBITDA margin (%)	10.9	15.8	12.8	14.0	15.5
EBIT margin (%)	9.1	14.2	11.2	12.4	14.0
Effective tax rate (%)	25.1	25.3	25.9	26.0	26.0
NOPLAT (pre-IndAS)	3,284	5,613	4,581	5,709	7,280
Shares outstanding (mn)	275.6	277.9	277.8	277.8	277.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	4,424	8,348	7,160	8,718	11,126
Others (non-cash items)	3,300	1,372	868	972	1,056
Taxes paid	(1,315)	(1,807)	(1,856)	(2,267)	(2,893)
Change in NWC	(800)	(730)	(238)	(523)	(766)
Operating cash flow	5,609	7,182	5,934	6,900	8,523
Capital expenditure	(565)	(191)	(1,180)	(1,100)	(1,263)
Acquisition of business	2,844	(6,467)	0	0	0
Interest & dividend income	238	390	0	0	0
Investing cash flow	2,517	(6,269)	(1,180)	(1,100)	(1,263)
Equity raised/(repaid)	(4,615)	99	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(403)	(410)	0	0	0
Interest paid	(95)	(127)	0	0	0
Dividend paid (incl tax)	(1,250)	(1,240)	(1,975)	(2,257)	(2,680)
Others	0	0	0	0	0
Financing cash flow	(6,362)	(1,678)	(1,975)	(2,257)	(2,680)
Net chg in Cash	1,763	(743)	2,779	3,544	4,580
OCF	5,609	7,182	5,934	6,900	8,523
Adj. OCF (w/o NWC chg.)	6,409	7,913	6,172	7,423	9,289
FCFF	5,044	6,991	4,754	5,800	7,260
FCFE	5,096	7,181	4,532	5,544	7,003
OCF/EBITDA (%)	107.8	85.9	84.1	79.4	78.2
FCFE/PAT (%)	153.7	115.1	85.4	85.9	85.1
FCFF/NOPLAT (%)	153.6	124.5	103.8	101.6	99.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	550	552	552	552	552
Reserves & Surplus	23,933	29,889	33,219	37,413	42,966
Net worth	24,483	30,441	33,771	37,965	43,518
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(1,171)	(1,044)	(1,044)	(1,044)	(1,044)
Total debt	0	0	0	0	0
Total liabilities & equity	23,312	29,397	32,727	36,921	42,474
Net tangible fixed assets	1,423	1,047	1,033	1,093	1,235
Net intangible assets	138	95	82	66	66
Net ROU assets	902	872	1,212	1,295	1,360
Capital WIP	65	116	116	116	116
Goodwill	4,896	4,957	4,957	4,957	4,957
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	11,166	17,445	20,224	23,768	28,348
Current assets (ex-cash)	12,112	13,680	14,271	15,991	18,048
Current Liab. & Prov.	7,390	8,815	9,168	10,365	11,656
NWC (ex-cash)	4,722	4,865	5,103	5,626	6,392
Total assets	23,312	29,397	32,727	36,921	42,474
Net debt	(11,166)	(17,445)	(20,224)	(23,768)	(28,348)
Capital employed	23,312	29,397	32,727	36,921	42,474
Invested capital	12,081	11,836	12,386	13,037	14,010
BVPS (Rs)	87.7	108.0	119.7	134.6	154.3
Net Debt/Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)
Net Debt/EBITDA (x)	(2.1)	(2.1)	(2.9)	(2.7)	(2.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	19.1	32.4	23.8	25.8	28.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	50.6	27.2	32.0	26.3	20.6
P/CE(x)	40.5	23.9	27.5	22.8	18.3
P/B (x)	6.8	5.6	5.0	4.5	3.9
EV/Sales (x)	3.3	2.9	2.7	2.4	2.0
EV/EBITDA (x)	30.1	18.2	21.2	16.8	13.0
EV/EBIT(x)	35.3	19.9	23.7	18.6	14.1
EV/IC (x)	12.8	12.6	11.8	11.0	9.9
FCFF yield (%)	3.0	4.2	2.8	3.5	4.3
FCFE yield (%)	3.1	4.3	2.7	3.3	4.2
Dividend yield (%)	0.6	1.1	1.2	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	6.9	11.8	9.6	10.4	11.7
Total asset turnover (x)	2.0	2.0	1.8	1.8	1.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	13.2	22.7	16.5	18.0	20.2
DuPont-RoIC					
NOPLAT margin (%)	6.8	10.6	8.3	9.2	10.4
IC turnover (x)	3.9	4.4	4.5	4.9	5.2
RoIC (%)	26.6	46.9	37.8	44.9	53.8
Operating metrics					
Core NWC days	35.9	33.6	33.8	33.1	33.2
Total NWC days	35.9	33.6	33.8	33.1	33.2
Fixed asset turnover	4.0	4.5	4.6	4.9	5.2
Opex-to-revenue (%)	89.1	84.2	87.2	86.0	84.5

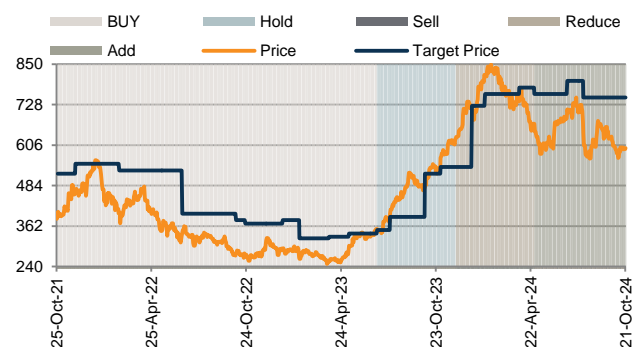
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Oct-24	595	750	Add	Dipeshkumar Mehta
01-Aug-24	643	750	Add	Dipeshkumar Mehta
01-Jul-24	713	800	Add	Dipeshkumar Mehta
09-Jun-24	674	760	Add	Dipeshkumar Mehta
03-Jun-24	610	760	Add	Dipeshkumar Mehta
27-May-24	632	760	Add	Dipeshkumar Mehta
29-Apr-24	671	760	Add	Dipeshkumar Mehta
31-Mar-24	738	780	Reduce	Dipeshkumar Mehta
01-Mar-24	770	760	Reduce	Dipeshkumar Mehta
13-Feb-24	838	760	Reduce	Dipeshkumar Mehta
25-Jan-24	814	760	Reduce	Dipeshkumar Mehta
31-Dec-23	717	725	Reduce	Dipeshkumar Mehta
30-Nov-23	627	540	Reduce	Dipeshkumar Mehta
01-Nov-23	568	540	Hold	Dipeshkumar Mehta
02-Oct-23	479	520	Hold	Dipeshkumar Mehta
27-Jul-23	398	390	Hold	Dipeshkumar Mehta
02-Jul-23	353	350	Hold	Dipeshkumar Mehta
09-May-23	303	340	Buy	Dipeshkumar Mehta
01-Apr-23	257	330	Buy	Dipeshkumar Mehta
03-Feb-23	264	325	Buy	Dipeshkumar Mehta
02-Jan-23	293	380	Buy	Dipeshkumar Mehta
22-Oct-22	275	370	Buy	Dipeshkumar Mehta
04-Oct-22	281	380	Buy	Dipeshkumar Mehta
04-Aug-22	343	400	Buy	Dipeshkumar Mehta
23-Jun-22	342	400	Buy	Dipeshkumar Mehta
01-Apr-22	453	530	Buy	Dipeshkumar Mehta
22-Feb-22	404	530	Buy	Dipeshkumar Mehta
28-Jan-22	432	550	Buy	Dipeshkumar Mehta
01-Jan-22	529	550	Buy	Dipeshkumar Mehta
30-Nov-21	461	550	Buy	Dipeshkumar Mehta
27-Oct-21	393	520	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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