

Result in-line; Upgrade to Buy

Q2FY24 Result Update | Sector: IT | November 01, 2023

BUY

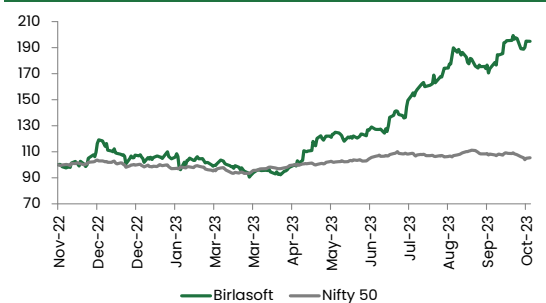
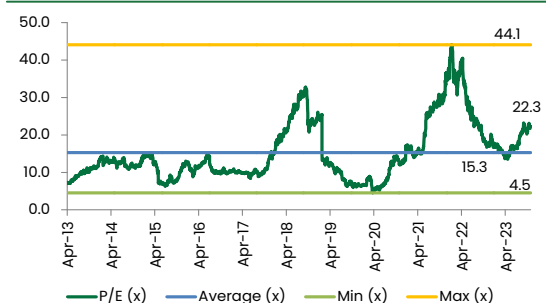
CMP (Rs)	548
Target Price (Rs)	651
Potential Upside	18.7%
Sensex	63,875
Nifty	19,080

Key Stock data

BSE Code	532400
NSE Code	BSOFT
Bloomberg	BSOFT:IN
Shares o/s, Cr (FV 2)	27.7
Market Cap (Rs Cr)	15,090
3M Avg Volume	2,356,904
52 week H/L	560/250

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	41.1	41.1	41.0
FII	11.5	11.3	17.6
DII	21.2	24.5	22.4
Others	26.2	23.1	19.1

1 Year relative price performance

1 year P/E Forward (x)

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Revenue in-line with expectations: Birlasoft reported healthy Q2FY24 revenue wherein rupee revenue came in at Rs 1,309.9cr, up by 9.9% YoY and 3.7% QoQ while revenue in dollar grew by 6.4% YoY and 3.1% QoQ to USD 158.3Mn. Constant currency revenue stood at USD 159Mn, up by 5.7% YoY and 3.1% QoQ. Overall growth was largely driven by the American region and segments such as manufacturing & BFSI along with a ramp up of order book.

Robust margin improvement: The company's EBITDA grew by 17.5% YoY and 7.2% QoQ to Rs 207.1cr while margin improved by 102bps YoY and 52bps QoQ to 15.8% because operating efficiency is driving the performance. Further, PAT grew by 26%/5.5% YoY/QoQ to Rs 145cr with margin at 11.1% an increase of 142bps/2bps YoY/QoQ.

Order Book continues to be healthy: Deals win continues to be strong and the company has signed deals worth USD 271Mn as compared to USD 146Mn in Q1FY24. For Q2FY24, it signed renewal deals of USD 105Mn and TCV new deal win was USD 167Mn and as compared to new deals of USD 80Mn/ USD 138 Mn in Q1FY24/Q2FY23. Going ahead management remains positive on the strong order inflow and signing of large deals.

Moderation in attrition continues: Attrition continued to moderate 15% in Q2FY24 as compared to 18.8% in Q1FY24 (decline of 380bps) and 27.4% in Q2FY23 (decline of 1,240bps).

The American region along with the Manufacturing and BFSI segment led the revenue growth: Birlasoft revenue grew healthy driven largely by decent growth from the American region as well as the majority of the segments participated but manufacturing & BFSI segments lead the growth. Amongst geographies, American region (~85.8% of revenue) grew by 12.1% YoY and 6.0% QoQ to Rs 1,123.9cr and so the rest of the world (6% of revenue) grew by 4.6%/3.7% YoY/QoQ while Europe region (8.2% of revenue) growth was muted and it de-grew by 6.1%/14.9% YoY/QoQ to Rs 107.4cr. Additionally, amongst segments, manufacturing (41.1% of revenue) grew by 8.0%/4.7% YoY/QoQ to Rs 538cr, BFSI (21.1% of revenue) grew strong by 21.4%/5.7% YoY/QoQ to Rs 276cr and Life-sciences (~24% of revenue) reported revenue of Rs 314.4cr, up by 5.5%/2.0% YoY/QoQ while mixed sentiment was seen in Energy (13.7% of revenue) segment which grew by 6.8% YoY but declined by 0.6% QoQ to Rs 179.5cr.

Outlook & Valuation: We believe Birlasoft posted a strong set of numbers for Q2FY24, despite macro concerns impacting other IT players. Further, management remains positive on the demand, continuous flow of order book and upskilling of employees will lead to growth. Besides, they have plans to diversify into Europe and the rest of the world as well hire a senior level manager which would add to its revenue growth. Additionally, we remain optimistic on Birlasoft as the company is strengthening its leadership team, has a strong order pipeline, easing attrition and improving financials will continue to aid growth. On the financial front, we expect its revenue/EBITDA to grow by 15.5%/44% CAGR over FY23-25E and revise our rating to **Buy** and target price upwards to **Rs 651**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	4,130.4	4,794.8	5,514.0	6,396.2
EBITDA	639.5	520.5	882.2	1,081.0
EBITDAM (%)	15.5	10.9	16.0	16.9
APAT	463.6	331.7	590.7	745.1
APATM (%)	11.2	6.9	10.7	11.6
EPS (Rs)	16.6	12.1	21.5	27.1
PE (x)	33.0	45.4	25.5	20.2
RoE (%)	17.9	13.5	20.4	21.4

Source : RBL Research

Concall Highlights: 1) Digital & cloud revenue up 28.7% YoY. 2) Management remains positive on the company's growth from medium to long term prospect while they expect Q3 to be muted because of short duration of work due to festive holidays. 3) Further, they are focused on catching up in European markets as well as looking for a leader for the rest of the world market as they plan to diversify. 4) In terms of clients, not one particular account is growing but all top 10 & top 20 are growing at a decent pace. 5) The company has plans for acquisitions in future but the purpose is not for revenue but will acquire the company having Domain & Technology expertise as well as it gets aligned with the culture of the company. 6) In terms of guidance, management has plans to reach an EBITDA margin of 16% in FY24 and going ahead they would maintain an EBITDA margin in between 15.5-16.5 to 17%. 7) Board recommends interim dividend of Rs 2.50/share.

Strong revenue growth in-line with expectation led by ramp of deals

Healthy improvement in EBITDA driven by operating efficiency

P&L Account Quarterly - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Revenue (\$ Mn)	158.3	149	6.4	154	3.1
Revenue (Rs Cr)	1,309.9	1,192.1	9.9	1,262.8	3.7
Employee Cost	744.1	693.8	7.3	742.8	0.2
Other Expense	358.6	321.9	11.4	326.8	9.7
Total Expenditure	1,102.7	1,015.7	8.6	1,069.6	3.1
EBITDA	207.1	176.4	17.5	193.2	7.2
EBITDA Margins (%)	15.8	14.8	102bps	15.3	52bps
Depreciation	21.5	20.6	4.4	21.4	0.6
EBIT	185.6	155.8	19.2	171.8	8.1
EBIT Margins (%)	14.2	13.1	111bps	13.6	57bps
Other Income	15.6	(2.7)	-	14.1	-
Interest	5.7	5.8	(2.0)	4.2	34.5
PBT	195.5	147.3	32.8	181.6	7.7
Tax	50.4	32.1	57.1	44.0	14.6
PAT	145.1	115.2	26.0	137.6	5.5
PAT Margin (%)	11.1	9.7	142bps	10.9	2bps

Source : RBL Research

Key Data

Particulars	Q2FY24	Q2FY23	Q1FY24
Client Data			
No of Active Clients	278	285	301
Clients added - QoQ	-7	-3	1
No of million \$ clients (LTM)			
US\$ 1mn+ Clients	85	86	76
US\$ 5mn+ Clients	27	27	27
US\$ 10mn+ Clients	11	13	14
Client Contribution to Revenue (LTM)			
Top 5	33.6	33.3	31.1
Top 10	51.0	49.6	47.2
Top 20	63.9	63.9	63.7

Source : RBL Research

American region drove the growth

Manufacturing & BFSI led the growth

Digital & Cloud continues to grow strong

Revenue share – consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Share by Geography					
American	1,123.9	1,002.5	12.1	1,060.7	6.0
% of revenue	85.8	84.1	170bps	84	180bps
Europe	107.4	114.4	(6.1)	126.3	(14.9)
% of revenue	8.2	9.6	-140bps	10.0	-180bps
Rest of the World	78.6	75.1	4.6	75.8	3.7
% of revenue	6.0	6.3	-30bps	6	0bps
Share by Verticals					
Manufacturing	538.4	498.3	8.0	513.9	4.7
% of revenue	41.1	41.8	-70bps	40.7	40bps
BFSI	276.4	227.7	21.4	261.4	5.7
% of revenue	21.1	19.1	200bps	20.7	40bps
Energy	179.5	168.1	6.8	180.6	(0.6)
% of revenue	13.7	14.1	-40bps	14.3	-60bps
Life Sciences	314.4	298.0	5.5	308.1	2.0
% of revenue	24.0	25	-100bps	24.4	-40bps
Share by Services					
Data & Analytics	335	341	(1.6)	337	(0.5)
% of revenue	25.6	28.6	-300bps	26.7	-110bps
Digital & Cloud	448	336	33.3	398	12.6
% of revenue	34.2	28.2	600bps	31.5	270bps
ERP	423	416	1.7	422	0.3
% of revenue	32.3	34.9	-260bps	33.4	-110bps
ICTS	103	98	5.9	106	(2.4)
% of revenue	7.9	8.2	-30bps	8.4	-50bps

Source : RBL Research

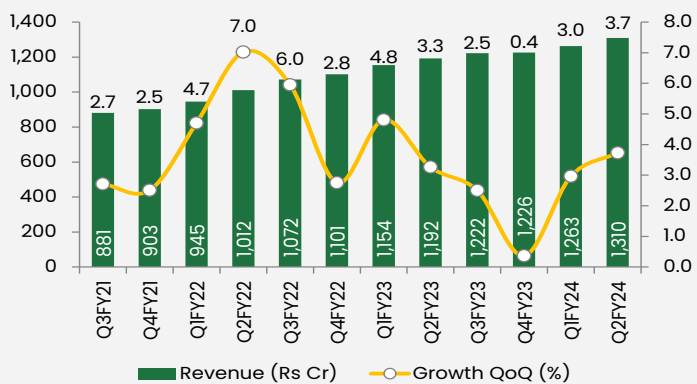
Key Data

Particulars	Q2FY24	Q2FY23	Q1FY24
Revenue by Contract Type (%)			
Time & Material	39.1	38.5	40.2
Fixed Price, Fixed Monthly	60.9	61.5	59.8
Revenue Mix (%)			
Onsite	48.8	49	48
Offshore	51.2	51	52
Currency Mix of Revenue (%)			
USD	87.1	84.5	85.7
GPB	2.4	4.3	1.7
EUR	2.8	3	4.2
Others	7.7	8.2	8.5

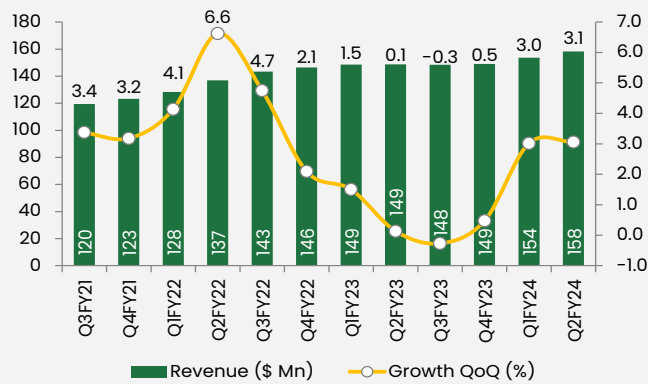
Source : RBL Research

Story in charts

Revenue in rupee grew by 9.9% YoY and 3.7% QoQ

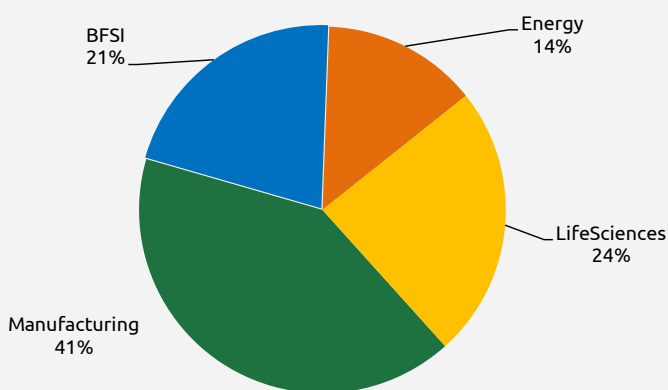


Revenue in dollar grew by 6.4% YoY and 3.1% QoQ

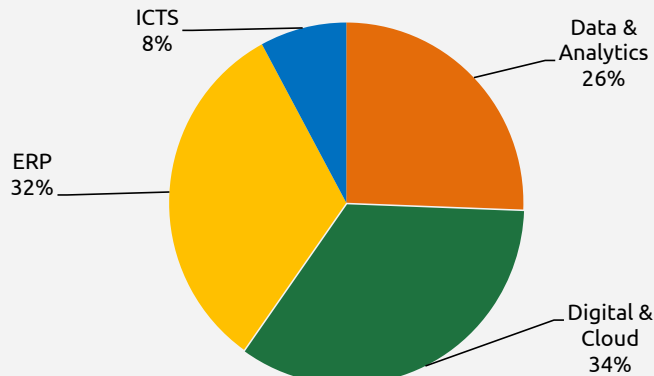


Source : RBL Research

Revenue share by Verticals (%)

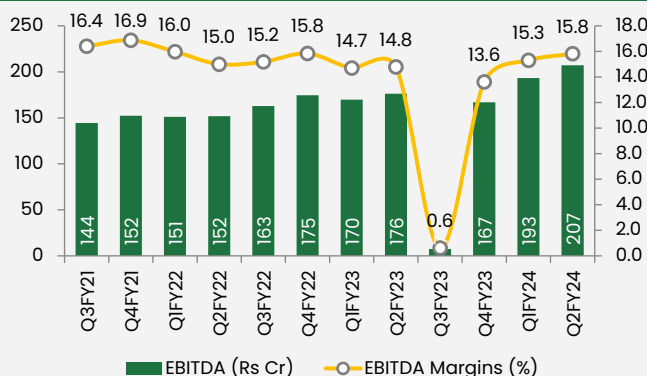


Revenue share by Services (%)

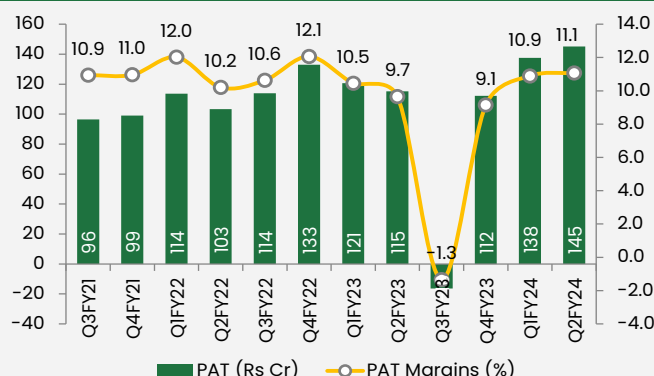


Source : RBL Research

Healthy improvement in EBITDA margin to 15.8% in Q2FY24

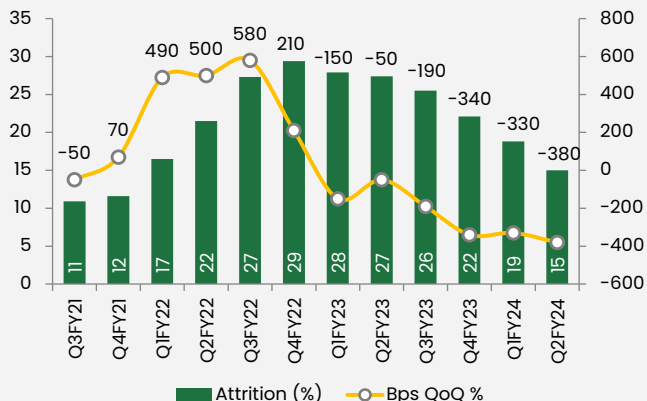


PAT margin saw strong improvement and came in at 11.1% for Q2FY24

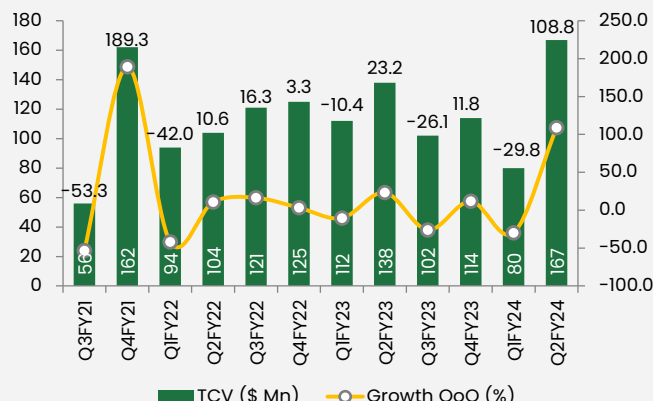


Source : RBL Research

Attrition declined by 380bps QoQ to 15.0% in Q2FY24



New deals won worth USD 167Mn in Q2FY24



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	4,130.4	4,794.8	5,514.0	6,396.2
Employee cost	2,368.9	2,813.1	3,143.0	3,620.3
Other expenses	1,122.0	1,461.2	1,488.8	1,695.0
Total expenditure	3,490.9	4,274.3	4,631.7	5,315.3
EBITDA	639.5	520.5	882.2	1,081.0
EBITDAM (%)	15.5	10.9	16.0	16.9
Depreciation	76.5	82.2	88.2	95.9
PBIT	563.0	438.3	794.0	985.0
Other income	66.8	22.8	26.3	30.5
Interest expenses	13.0	18.6	22.0	22.0
PBT	616.8	442.5	798.3	993.5
Tax	153.0	110.8	207.6	248.4
PAT (after Exceptional)	463.6	331.7	590.7	745.1
PAT Margin %	11.2	6.9	10.7	11.6
EPS (Rs)	16.6	12.1	21.5	27.1

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	55.9	55.0	55.0	55.0
Reserves & Surplus	2,527.2	2,393.3	2,846.6	3,426.8
Total Shareholder's Fund	2,583.1	2,448.3	2,901.6	3,481.8
Deferred tax liabilities	(92.0)	(133.7)	(153.8)	(178.4)
Long term provision	49.2	48.8	56.1	65.1
Other long term liabilities	91.2	66.2	76.1	88.3
Total	48.4	(18.7)	(21.5)	(25.0)
Current Liabilities				
Trade payables	209.5	231.3	265.9	306.7
Short term provisions	73.9	63.9	73.5	85.2
Other current liabilities	376.5	296.2	340.6	395.2
Total	659.9	591.4	680.0	787.1
Total liabilities	3,291.3	3,020.9	3,560.0	4,243.8
Application of Assets				
Net Block	725.7	735.9	772.7	811.3
Current work in process	1.7	6.5	6.5	6.5
Non current investment	54.1	74.1	72.2	83.7
Long term loans and advances	60.0	-	-	-
Other non-current assets	16.6	34.7	39.9	46.2
Total	858.1	851.2	891.2	947.8
Current Assets				
Current investments	786.1	489.0	606.5	831.5
Trade receivables	848.8	907.1	1,043.2	1,210.1
Cash balance	290.7	466.8	701.3	918.1
Bank balance	92.1	86.6	64.7	42.7
Short term loans and advances	54.2	-	-	-
Other current assets	361.5	220.1	253.2	293.7
Total	2,433.3	2,169.8	2,668.8	3,296.1
Total assets	3,291.3	3,020.9	3,560.0	4,243.8

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	616.7	442.5	798.3	993.5
Add: Depreciation	76.5	82.2	88.2	95.9
Add: Interest cost	13.0	18.6	22.0	22.0
Less: Other Income /Interest Rec	(32.2)	(18.9)	-	-
Others	41.3	248.0	-	-
Operating profit before working capital changes	715.3	772.4	908.5	1,111.4
Changes in working capital	(256.3)	(80.0)	(88.5)	(110.2)
Cash from Operations	459.1	692.4	820.0	1,001.3
Less: Taxes	(178.4)	(131.5)	(207.6)	(248.4)
Cash flow from Operations	280.7	560.9	612.5	752.9
Net cash used in Investing				
Purchase of fixed assets	(63.8)	(57.7)	(125.0)	(134.6)
Purchase of investments	(1,828.0)	(3,413.1)	(115.6)	(236.5)
Sales of fixed assets	1,618.7	3,737.1	-	-
Sales of investments	(54.1)	(35.1)	-	-
Dividend Income//Interest Rec.	32.6	23.7	22.0	22.0
Others	(12.0)	(3.3)	-	-
Cash flow from investing	(306.6)	251.6	(218.6)	(349.1)
Cash flow from Financing				
Proceeds from Equity shares	7.9	(461.5)	-	-
Sales of borrowings	(40.5)	(40.3)	-	-
Dividend (Incl dividend tax)	(111.1)	(125.0)	(137.4)	(164.9)
Interest cost	(3.0)	(9.5)	(22.0)	(22.0)
Cash flow from Financing	(146.7)	(636.2)	(159.4)	(186.9)
Net cash Inflow/Outflow	(172.6)	176.3	234.4	216.9
Opening cash	466.1	290.7	466.8	701.3
Exchange gain/loss	(2.8)	(0.1)	-	-
Closing Cash	290.7	466.8	701.3	918.1

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	16.6	12.1	21.5	27.1
Book value per share (Rs)	92.4	89.1	105.6	126.7
Dividend per share (Rs)	4.0	4.5	5.0	6.0
Dividend Yield (%)	0.7	0.8	0.9	1.1
Dividend Payout (%)	24.0	37.7	23.3	22.1
Profitability Ratios				
EBITDAM(%)	15.5	10.9	16.0	16.9
PBTM (%)	14.9	9.2	14.5	15.5
NPM (%)	11.2	6.9	10.7	11.6
RoE (%)	17.9	13.5	20.4	21.4
RoCE (%)	21.8	17.9	27.4	28.3
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	43.2	23.6	36.1	44.8
Fixed Asset Ratio	0.2	0.2	0.1	0.1
Debtors (Days)	75.0	69.1	69.1	69.1
Inventory (Days)	0.0	0.0	0.0	0.0
Payable (Days)	18.5	17.6	17.6	17.5
WC (Days)	56.5	51.4	51.5	51.6
Valuation				
P/E (x)	33.0	45.4	25.5	20.2
P/BV	5.9	6.2	5.2	4.3
EV/EBITDA	23.5	28.0	16.3	13.1
EV/Sales	3.6	3.0	2.6	2.2

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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