REDUCE

Birlasoft

Outperformance in a seasonally weak quarter

Information Technology ‣ Result Update ‣ **January 25, 2024**

TARGET PRICE (Rs): 760

Birlasoft's operating performance outperformed our estimates in Q3. Revenue grew 1.9% QoQ (1.8% in cc), ahead of our estimates of 1.1% QoQ cc growth. In Q3, Birlasoft managed to negate the impact of furloughs through some short-term project execution and change requests. EBITDA margin expanded 20bps QoQ to 16%, despite the impact of incremental two months of wage hike, offset by operational efficiencies, improving utilization, and reducing sub-contracting costs along with higher contribution of short-term and change request projects. There is a conscious strategy to focus on short-term projects, which may increase some revenue volatility, in our view. Deal wins for 9MFY24 have increased 9% YoY, but net new deals have fallen ~3%. As per management, there has been no material improvement in the demand environment, as customers continue to remain cautious. We have increased our FY24-26E EPS estimates by 2-5%, factoring in Q3 performance beat. We maintain REDUCE, given rich valuations with a revised TP of Rs760 at 26x its Dec-25E EPS.

Target Price – 12M	Dec-24
Change in TP (%)	**4.8**
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(7.6)
CMP (24-Jan-24) (Rs)	822.7

Birlasoft: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	41,304	47,948	52,972	60,981	69,715
EBITDA	6,401	5,205	8,398	9,834	11,590
Adj. PAT	4,637	3,316	6,027	7,020	8,424
Adj. EPS (Rs)	16.3	11.9	21.4	25.0	30.0
EBITDA margin (%)	15.5	10.9	15.9	16.1	16.6
EBITDA growth (%)	21.0	(18.7)	61.3	17.1	17.9
Adj. EPS growth (%)	43.0	(27.1)	81.0	16.5	20.0
RoE (%)	19.5	13.2	22.6	22.4	22.8
RoIC (%)	37.6	26.6	46.3	52.2	58.3
P/E (x)	50.4	69.2	38.4	32.9	27.5
EV/EBITDA (x)	34.6	42.0	25.7	21.5	17.8
P/B (x)	9.0	9.4	8.0	6.8	5.8
FCFF yield (%)	0.9	2.2	2.6	2.8	3.4

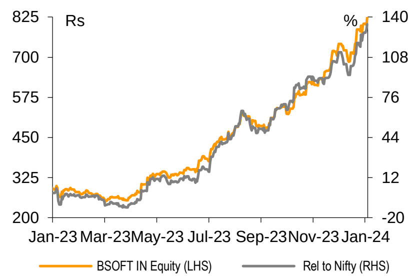
Source: Company, Emkay Research

Stock Data	Ticker
52-week High (Rs)	828
52-week Low (Rs)	250
Shares outstanding (mn)	275.7
Market-cap (Rs bn)	227
Market-cap (USD mn)	2,729
Net-debt, FY24E (Rs mn)	-15,331
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,681.8
ADTV-3M (USD mn)	20.2
Free float (%)	59.0
Nifty-50	21,454
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	41.0
FPIs/MFs (%)	21.3/20.2

Price Performance

(%)	1M	3M	12M
Absolute	11.0	56.3	168.7
Rel. to Nifty	10.5	40.5	126.9

1-Year share price trend (Rs)



Results Summary

Revenue grew 1.9% QoQ (1.8% in cc) to USD161.3mn, above our estimates of USD159.9mn. All service offerings reported sequential growth during the quarter – Data and Analytics (1.1% QoQ), Digital and Cloud (1.9%), ERP (0.6%), and Infrastructure (9.6%). Among verticals, Energy and Utilities (7.8% QoQ), Manufacturing (1.9%), and Lifesciences (1.5%) reported growth, while BFSI reported a decline of 0.5% QoQ. Both North America (1.8% QoQ) and ROW (2.6%) reported growth in the quarter. EBITDA margin expanded 20bps QoQ to 16%, higher than our estimate of 15.2%. TCV of deals fell to USD218mn (book to bill of 1.4x) from USD271mn in Q2 (9MFY24 – USD635mn, up 9% YoY). Net new deals declined to USD94mn in Q3 from USD167mn in Q2 (9MFY24 – USD341mn, down 3% YoY). Total headcount inched up by 0.3% QoQ to 12,356. **What we liked:** Strong operating performance and healthy cash conversion (141% OCF/EBITDA). **What we did not like:** Weaker deal wins (especially net new) and muted headcount addition (-1.4% YoY).

Earnings Call KTAs

i) The company has undertaken multiple sales and efficiency initiatives, of which one of them is Optimus. It is an internal tech transformation program, which focuses on the next wave of profitable growth, industrializing delivery, becoming a partner of choice in emerging technologies, enhancing the employee experience, and building a best-in-class talent pool. ii) Total TCV for 9MFY24 is up 9% YoY and management aims to wrap up Q4 with sequentially higher deal TCV signings, positioning the company well for FY25. iii) Revenue in Q3 was driven by deal ramp-ups, ability to pursue and execute short-term projects, and change requests, partially offsetting the impact of furloughs. iv) Energy and Utilities grew 7.9% QoQ due to the ramp-up of new deals. v) BFSI declined 0.7% QoQ and was impacted by higher furloughs. vi) The number of active clients stands at 272 in Q3 (vs. 299 in Q3FY23), reflecting continuous efforts of rationalizing tail accounts. Management highlighted that rationalization of tail accounts is largely over and may review it depending on the demand environment. vii) The company witnessed growth across infrastructure, which grew 9.6% QoQ, digital and cloud grew 2.1%, reflecting ramp-ups in a few new cloud teams, as well as some one-time revenue. The ERP service line continues its sequential growth trajectory in Q3 (up 0.5%), whereas data and analytics recorded 1.1% sequential growth. viii) Management highlighted that senior leadership hiring is largely done barring some strategic roles like Chief Strategy Officer.

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Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Revenue (USD)	161.3	158.3	1.9	148.4	8.7
Net sales	13,430	13,099	2.5	12,219	9.9
Operating expenses	11,287	11,027		12,145	
EBITDA	2,143	2,071	3.4	74	NM
Margins (%)	16.0	15.8	10.0	0.6	NM
Depreciation	211	215		210	
EBIT	1,932	1,856	4.1	-136	NM
Margins (%)	14.4	14.2	20.0	-1.1	NM
Interest paid	59.5	56.9		55.6	
Forex Gains/(Losses)	66	-47		69	
Other income	216	203		54	
Pre-tax profit	2,154	1,955	10.2	-68	
Tax provided	544	504		95	
Profit after tax	1,611	1,451		-164	
Emkay net profit	1,611	1,451	11.0	-164	NM
EPS (Rs)	5.8	5.2	11.1	-0.6	NM

Source: Company, Emkay Research

Exhibit 2: Actual vs estimates

(Rs mn)	Actual	Estimate		Variation (%)		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (USD mn)	161	160	160	0.9%	0.8%	Revenue came ahead of our expectations.
Sales (Rs mn)	13,430	13,318	13,334	0.8%	0.7%	
EBIT	1,932	1,798	1,814	7.4%	6.5%	
EBIT margin	14.4%	13.5%	13.6%	90 bps	80 bps	EBITM came 90bps above expectations.
PAT	1,611	1,422	1,427	13.3%	12.9%	PAT beat estimates due to strong operating performance.

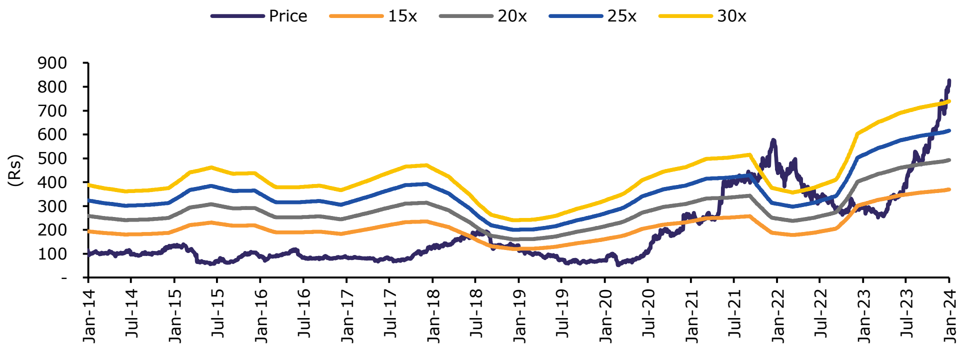
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

All figures in Rs mn except EPS and %	FY24E			FY25E			FY26E		
	Old	New		Old	New		Old	New	
Revenue (USD mn)	637	640	0.5%	720	726	0.9%	813	820	0.9%
YoY growth (%)	*7.0*	*7.5*		*13.0*	*13.5*		*13.0*	*13.0*	
Revenue	52,740	52,972	0.4%	60,445	60,981	0.9%	69,103	69,715	0.9%
EBIT	7,331	7,528	2.7%	8,671	8,873	2.3%	9,955	10,485	5.3%
EBIT margin (%)	*13.9*	*14.2*		*14.3*	*14.6*		*14.4*	*15.0*	
Net profit	5,790	6,027	4.1%	6,860	7,020	2.3%	8,007	8,424	5.2%
EPS (Rs)	20.7	21.4	3.7%	24.5	25.0	2.0%	28.6	30.0	4.8%

Source: Company, Emkay Research

Exhibit 4: BSOFT one-year forward P/E



Source: Company, Emkay Research

Birlasoft: Consolidated Financials and Valuations

Profit and Loss

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**41,304**	**47,948**	**52,972**	**60,981**	**69,715**
Revenue growth (%)	16.2	16.1	10.5	15.1	14.3
EBITDA	**6,401**	**5,205**	**8,398**	**9,834**	**11,590**
EBITDA growth (%)	21.0	(18.7)	61.3	17.1	17.9
Depreciation & Amortization	765	823	870	961	1,106
EBIT	**5,636**	**4,382**	**7,528**	**8,873**	**10,485**
EBIT growth (%)	25.6	(22.3)	71.8	17.9	18.2
Other operating income	0	0	0	0	0
Other income	662	228	723	811	1,106
Financial expense	130	186	206	198	207
PBT	**6,168**	**4,424**	**8,045**	**9,486**	**11,384**
Extraordinary items	(1)	0	0	0	0
Taxes	1,531	1,108	2,019	2,466	2,960
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**4,636**	**3,316**	**6,027**	**7,020**	**8,424**
PAT growth (%)	44.5	(28.5)	81.8	16.5	20.0
Adjusted PAT	**4,637**	**3,316**	**6,027**	**7,020**	**8,424**
Diluted EPS (Rs)	**16.3**	**11.9**	**21.4**	**25.0**	**30.0**
Diluted EPS growth (%)	43.0	(27.1)	81.0	16.5	20.0
DPS (Rs)	**4.5**	**3.5**	**6.0**	**7.0**	**8.0**
Dividend payout (%)	**27.3**	**29.1**	**27.6**	**27.6**	**26.3**
EBITDA margin (%)	15.5	10.9	15.9	16.1	16.6
EBIT margin (%)	13.6	9.1	14.2	14.6	15.0
Effective tax rate (%)	24.8	25.1	25.1	26.0	26.0
NOPLAT (pre-IndAS)	**4,237**	**3,284**	**5,639**	**6,566**	**7,759**
Shares outstanding (mn)	281.0	275.6	276.7	276.7	276.7

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	559	550	550	550	550
Reserves & Surplus	25,272	23,933	28,273	33,326	39,501
Net worth	**25,831**	**24,483**	**28,823**	**33,876**	**40,051**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(920)	(1,171)	(1,171)	(1,171)	(1,171)
Total debt	**0**	**0**	**0**	**0**	**0**
Total liabilities & equity	**24,910**	**23,312**	**27,652**	**32,705**	**38,880**
Net tangible fixed assets	1,468	1,423	1,496	1,505	1,518
Net intangible assets	94	138	132	122	108
Net ROU assets	1,116	902	735	596	521
Capital WIP	28	65	65	65	65
Goodwill	4,568	4,896	4,896	4,896	4,896
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**12,230**	**11,166**	**15,331**	**19,716**	**25,144**
Current assets (ex-cash)	13,410	12,112	14,185	16,266	18,468
Current Liab. & Prov.	8,003	7,390	9,188	10,461	11,839
NWC (ex-cash)	**5,407**	**4,722**	**4,997**	**5,805**	**6,628**
Total assets	**24,910**	**23,312**	**27,652**	**32,705**	**38,880**
Net debt	(12,230)	(11,166)	(15,331)	(19,716)	(25,144)
Capital employed	24,910	23,312	27,652	32,705	38,880
Invested capital	**12,652**	**12,081**	**12,257**	**12,924**	**13,671**
BVPS (Rs)	91.0	87.7	102.5	120.5	142.5
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Net Debt/EBITDA (x)	(1.9)	(2.1)	(1.8)	(2.0)	(2.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**27.5**	**19.1**	**32.4**	**32.1**	**32.4**

Source: Company, Emkay Research

Cash Flows

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,168	4,424	8,045	9,486	11,384
Others (non-cash items)	987	3,300	870	961	1,106
Taxes paid	(1,784)	(1,315)	(2,019)	(2,466)	(2,960)
Change in NWC	(2,563)	(800)	(275)	(808)	(824)
Operating cash flow	**2,807**	**5,609**	**6,621**	**7,173**	**8,706**
Capital expenditure	(617)	(565)	(770)	(820)	(1,030)
Acquisition of business	(2,776)	2,844	0	0	0
Interest & dividend income	326	238	0	0	0
Investing cash flow	**(3,067)**	**2,517**	**(770)**	**(820)**	**(1,030)**
Equity raised/(repaid)	79	(4,615)	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(405)	(403)	0	0	0
Interest paid	(30)	(95)	0	0	0
Dividend paid (incl tax)	(1,111)	(1,250)	(1,686)	(1,968)	(2,249)
Others	0	0	0	0	0
Financing cash flow	**(1,467)**	**(6,362)**	**(1,686)**	**(1,968)**	**(2,249)**
Net chg in Cash	(1,755)	1,763	4,165	4,385	5,427
OCF	2,807	5,609	6,621	7,173	8,706
Adj. OCF (w/o NWC chg.)	5,370	6,409	6,896	7,980	9,530
FCFF	2,189	5,044	5,851	6,353	7,676
FCFE	2,386	5,096	5,646	6,155	7,469
OCF/EBITDA (%)	43.8	107.8	78.8	72.9	75.1
FCFE/PAT (%)	51.5	153.7	93.7	87.7	88.7
FCFF/NOPLAT (%)	**51.7**	**153.6**	**103.8**	**96.8**	**98.9**

Source: Company, Emkay Research

Valuations and Key Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	50.4	69.2	38.4	32.9	27.5
P/CE(x)	43.2	55.5	33.5	29.0	24.3
P/B (x)	9.0	9.4	8.0	6.8	5.8
EV/Sales (x)	5.4	4.6	4.1	3.5	3.0
EV/EBITDA (x)	34.6	42.0	25.7	21.5	17.8
EV/EBIT(x)	38.8	49.2	28.2	23.4	19.3
EV/IC (x)	17.3	17.8	17.3	16.1	14.8
FCFF yield (%)	0.9	2.2	2.6	2.8	3.4
FCFE yield (%)	1.0	2.2	2.5	2.7	3.3
Dividend yield (%)	0.5	0.4	0.7	0.9	1.0
DuPont-RoE split					
Net profit margin (%)	11.2	6.9	11.4	11.5	12.1
Total asset turnover (x)	1.8	2.0	2.1	2.0	1.9
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**19.5**	**13.2**	**22.6**	**22.4**	**22.8**
DuPont-RoIC					
NOPLAT margin (%)	10.3	6.8	10.6	10.8	11.1
IC turnover (x)	3.7	3.9	4.4	4.8	5.2
RoIC (%)	**37.6**	**26.6**	**46.3**	**52.2**	**58.3**
Operating metrics					
Core NWC days	47.8	35.9	34.4	34.7	34.7
Total NWC days	**47.8**	**35.9**	**34.4**	**34.7**	**34.7**
Fixed asset turnover	3.6	4.0	4.3	4.6	5.0
Opex-to-revenue (%)	84.5	89.1	84.1	83.9	83.4

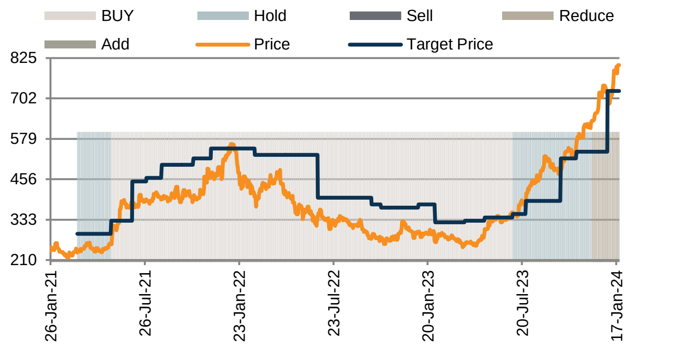
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Dec-23	721	725	Reduce	Dipeshkumar Mehta
30-Nov-23	630	540	Reduce	Dipeshkumar Mehta
01-Nov-23	572	540	Hold	Dipeshkumar Mehta
02-Oct-23	481	520	Hold	Dipeshkumar Mehta
27-Jul-23	400	390	Hold	Dipeshkumar Mehta
02-Jul-23	355	350	Hold	Dipeshkumar Mehta
09-May-23	305	340	Buy	Dipeshkumar Mehta
01-Apr-23	259	330	Buy	Dipeshkumar Mehta
03-Feb-23	265	325	Buy	Dipeshkumar Mehta
02-Jan-23	294	380	Buy	Dipeshkumar Mehta
22-Oct-22	276	370	Buy	Dipeshkumar Mehta
04-Oct-22	283	380	Buy	Dipeshkumar Mehta
04-Aug-22	345	400	Buy	Dipeshkumar Mehta
23-Jun-22	344	400	Buy	Dipeshkumar Mehta
01-Apr-22	455	530	Buy	Dipeshkumar Mehta
22-Feb-22	407	530	Buy	Dipeshkumar Mehta
28-Jan-22	435	550	Buy	Dipeshkumar Mehta
01-Jan-22	532	550	Buy	Dipeshkumar Mehta
30-Nov-21	464	550	Buy	Dipeshkumar Mehta
27-Oct-21	395	520	Buy	Dipeshkumar Mehta
02-Oct-21	386	500	Buy	Dipeshkumar Mehta
27-Aug-21	396	500	Buy	Dipeshkumar Mehta
29-Jul-21	394	460	Buy	Dipeshkumar Mehta
02-Jul-21	384	450	Buy	Dipeshkumar Mehta
22-May-21	258	330	Buy	Dipeshkumar Mehta
05-Apr-21	261	290	Hold	Dipeshkumar Mehta
18-Mar-21	233	290	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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