

November 7, 2025

Deal pipeline expansion key for H2 growth...

About the stock: Birlasoft Limited (Birlasoft), is the global technology services division of the 'CKA Birla Group'. It merged with KPIT's IT Services business in 2019.

- It caters to four verticals - Manufacturing (37%), BFSI (25%), Energy & Utilities (E&U) (17%) and Lifesciences (21%);

Q2FY26 Performance: Birlasoft reported revenue of US\$ 150.7 mn (₹1,329 crore), flat QoQ/ down 8% YoY in CC terms. The company reported EBITDA margin of 16%, up ~370 bps QoQ. PAT stood at ₹116 crore, up 9% QoQ.

Investment Rationale

- Focused execution on order book expansion:** Management's top priority is rebuilding the order book after tepid deal wins in recent quarters (TCV of US\$107 mn in Q2 down 24% QoQ as two deals slipped into Q3). Going ahead, a stronger pipeline and deal spillovers into Q3 are potential catalysts for sequential recovery as management focuses on maximising order book & delivering revenue growth. **Moreover, ramp up in deals won in H1 shall aid some recovery in H2. Thus, deal wins remain crucial for rebuilding the order book & driving visibility for H2FY26 growth while sustained order conversion will be critical for revenue momentum through FY26 & stability into FY27. Accordingly, we now expect dollar revenue to grow at ~0.9% CAGR (vs 2.5% earlier) over FY25-27E.**
- Margin rebound aided by operational discipline and one offs:** Birlasoft demonstrated strong margin recovery in Q2, driven by better operational efficiencies & rationalisation of tail accounts (+120 bps), exchange led tailwinds (+100 bps) and few one offs w.r.t excess provisioning in prior quarters (+150 bps). Adjusting for one-offs, margin stood at 13.5% (+110 bps QoQ), reflecting better cost controls. **Notably, effective tax rate (ETR) for Q2 came at 45% and is expected to be ~44-45% (vs 36% in Q1FY26) in H2 and ~42-43% for FY26, before it settles down in between 27-28% in FY27.** Management expects to sustain margins around the 14% mark, despite a sluggish top line and lingering demand uncertainty in key verticals. **We bake in EBITDA margins of 14%/14.4% in FY26E/FY27E.**
- Strengthening AI capabilities to spur future growth:** Birlasoft continues to invest in AI, automation and data engineering capabilities, positioning itself to capture the next wave of enterprise digital transformation. Its expanding portfolio of agentic AI solutions and domain-specific digital offerings enhances differentiation against peers. As discretionary tech budgets return, these capabilities, backed by an improving deal pipeline & execution strength, should drive sustainable medium-term growth and margin stability through FY26-27.

Rating and Target Price

- Weak deal wins and manufacturing segment continue to pose as future growth headwinds, we thus maintain **HOLD**, with **unchanged target price of ₹410; valuing it at 20x P/E on FY27E EPS.**

Key Financial Summary

| ₹ Crore | FY23 | FY24 | FY25 | 5 Year CAGR (FY20-25) | FY26E | FY27E | 2 Year CAGR (FY25-27E) |
|--------------------|-------|-------|-------|-----------------------|-------|-------|------------------------|
| Net Sales | 4,795 | 5,278 | 5,375 | 10% | 5,365 | 5,695 | 3% |
| EBITDA | 520 | 836 | 697 | 12% | 753 | 820 | 8% |
| EBITDA Margins (%) | 10.9 | 15.8 | 13.0 | | 14.0 | 14.4 | |
| Net Profit | 332 | 624 | 517 | 23% | 465 | 584 | 6% |
| EPS (₹) | 11.9 | 22.3 | 18.5 | | 16.5 | 20.7 | |
| P/E | 30.9 | 16.5 | 20.0 | | 22.2 | 17.7 | |
| RoNW (%) | 13.5 | 20.5 | 14.9 | | 12.4 | 14.0 | |
| RoCE (%) | 18.0 | 26.9 | 19.6 | | 19.4 | 18.5 | |

Source: Company, ICICI Direct Research

birlasoft | CKA Birla Group

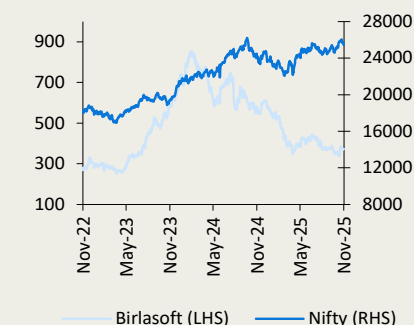
Particulars

| Particular | Amount |
|----------------------|----------|
| Market Cap (₹ Crore) | 10,258 |
| Total Debt | - |
| Cash & Inv (₹ Crore) | 1,902 |
| EV (₹ Crore) | 8,356 |
| 52 week H/L | 624/ 331 |
| Equity capital | 55.6 |
| Face value | 2.0 |

Shareholding pattern

| | Dec-24 | Mar-25 | Jun-25 | Sep-25 |
|----------|--------|--------|--------|--------|
| Promoter | 40.8 | 40.6 | 40.6 | 40.5 |
| FII | 11.1 | 11.7 | 12.4 | 11.3 |
| DII | 24.6 | 24.5 | 22.4 | 21.9 |
| Others | 23.5 | 23.2 | 24.6 | 26.3 |

Price Chart



Key risks

- Delayed revenue and margin recovery;
- Faster than expected pipeline to deal conversion

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Performance highlights and outlook

- **Revenue Performance:** Birlasoft reported revenue of US\$ 150.7 mn (₹1,329 crore), flat QoQ/ down 8% YoY in CC terms.
- **Geography performance:** Geography wise on a QoQ basis, Americas (86% of the mix) grew by 3.5% while RoW (14% of the mix) declined by 14.6%.
- **Vertical performance:** Vertical wise on a QoQ basis, the growth was led by Lifesciences (21% of the mix) and BFSI (25% of the mix) which were up 6.5% and 1.6% while Manufacturing (37% of the mix) and ER&U (17% of the mix) declined by 4.2% and 0.6%.
- **Manufacturing** softness is expected to continue in H2 as well. While for **BFSI** Q3 shall be flat due to furloughs with growth resuming Q4 onwards.
- **Margin performance:** The company reported EBITDA of ₹213 crore, up 34.3% QoQ, translating to an EBITDA margin of 16%, up ~370 bps QoQ driven by combination of factors including better operational efficiencies, rationalisation of tail accounts, exchange led tailwinds (+100 bps) and few one offs w.r.t excess provisioning in prior quarters (+150 bps). Adjusted EBITDA for one offs would have been 13.5% (up ~110 bps QoQ).
- **Tax rate:** Effective tax rate (ETR) for Q2 came at 45% and is expected to be ~44-45% (vs 36% in Q1FY26) in H2 and ~42-43% for FY26, before it settles down in between 27-28% in FY27. The higher rate seen in Q2 is due to higher US federal tax for some legacy contracts.
- **Revenue & Margin Guidance:** The management expects positive QoQ revenue growth in Q3 and Q4 aided by deals won in H1FY26. On the margins front, the management has guided for sustainable margins around the 14% mark going ahead.
- **Deal pipeline:** TCV for the quarter stood at US\$107 mn, down 24% QoQ/ 21% YoY, with new TCV wins of US\$40 mn, down 47% QoQ/ and renewals of US\$67 mn. **It saw two deals slip into Q3 which would aid the Q3 TCV performance.**
- **Employee addition & Attrition:** The total headcount for the quarter stood at 11,892 employees, addition of 58 employees QoQ. Attrition for the quarter stood at 13.3%, flat QoQ.

Quarter Performance

| | Q2FY26 | Q2FY25 | YoY (%) | Q1FY26 | QoQ (%) | Comments |
|------------------------------|--------|--------|---------|--------|---------|--|
| Revenue | 1,329 | 1,368 | -2.9 | 1,285 | 3.4 | Revenue was flat QoQ/ down 8% YoY in CC terms. |
| Employee expense | 796 | 830 | -4.0 | 779 | 2.3 | |
| Gross Margin | 533 | 539 | -1.1 | 506 | 5.2 | |
| Gross margin (%) | 40.1 | 39.4 | 71 bps | 39.4 | 67 bps | |
| Other expense | 319 | 373 | -14.5 | 347 | -8.1 | |
| EBITDA | 213.3 | 165.3 | 29.0 | 158.8 | 34.3 | The management has guided for sustainable margins around the 14% mark going ahead. |
| EBITDA Margin (%) | 16.0 | 12.1 | 396 bps | 12.4 | 369 bps | |
| Depreciation & amortisation | 20 | 22 | -9.2 | 21 | -2.9 | |
| EBIT | 193 | 143 | 34.9 | 138 | 39.9 | |
| EBIT Margin (%) | 14.5 | 10.5 | 407 bps | 10.7 | 379 bps | |
| Other income (less interest) | 17 | 27 | -36.3 | 28 | -39.8 | |
| PBT | 210 | 170 | 23.8 | 166 | 26.4 | |
| Tax paid | 94 | 42 | 122.7 | 60 | 57.2 | |
| PAT | 116 | 128 | -8.9 | 106 | 9.1 | Effective tax rate (ETR) for Q2 came at 45% and is expected to be ~44-45% (vs 36% in Q1FY26) in H2 and ~42-43% for FY26, before it settles down in between 27-28% in FY27. The higher rate seen in Q2 is due to higher US federal tax for some legacy contracts. |

Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 1: Profit and loss statement ₹ crore | | | | |
|--|-------|--------|--------|-------|
| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
| Total operating Income | 5,278 | 5,375 | 5,365 | 5,695 |
| Growth (%) | 10.1 | 1.8 | (0.2) | 6.1 |
| COGS (employee expenses) | 3,048 | 3,201 | 3,212 | 3,389 |
| Other expenses | 1,394 | 1,477 | 1,400 | 1,486 |
| Total Operating Expenditure | 4,442 | 4,678 | 4,612 | 4,875 |
| EBITDA | 836 | 697 | 753 | 820 |
| Growth (%) | 60.7 | (16.6) | 8.0 | 8.9 |
| Depreciation | 85 | 86 | 86 | 96 |
| Other income (net) | 84 | 85 | 82 | 64 |
| PBT | 835 | 697 | 749 | 788 |
| Total Tax | 211 | 180 | 284 | 204 |
| PAT | 624 | 517 | 465 | 584 |
| Growth (%) | 88.1 | (17.2) | (10.0) | 25.6 |
| Diluted EPS (₹) | 22.3 | 18.5 | 16.5 | 20.7 |
| Growth (%) | 86.7 | (16.9) | (10.6) | 25.6 |

Source: Company, ICICI Direct Research

| Exhibit 2: Cash flow statement ₹ crore | | | | |
|--|-------|-------|-------|-------|
| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
| Profit before Tax | 835 | 697 | 749 | 788 |
| Add: Depreciation | 85 | 86 | 86 | 96 |
| Others | 52 | (22) | (82) | (64) |
| Inc/(dec) in working capital | (73) | 14 | (147) | 5 |
| Taxes paid | (181) | (188) | (284) | (204) |
| CF from operating activities | 718 | 588 | 322 | 621 |
| (Inc)/dec in Fixed Assets | (26) | (49) | (199) | (211) |
| Others | (601) | (388) | 102 | 84 |
| CF from investing activities | (627) | (437) | (97) | (127) |
| Dividend paid & dividend tax | (124) | (180) | (183) | (183) |
| Others | (44) | (36) | (20) | (21) |
| CF from financing activities | (168) | (215) | (203) | (203) |
| Net Cash flow | (76) | (65) | 22 | 290 |
| Exchange difference | 2 | (1) | - | - |
| Opening Cash | 499 | 510 | 445 | 467 |
| Closing cash & Bank | 425 | 445 | 467 | 757 |

Source: Company, ICICI Direct Research

| Exhibit 3: Balance Sheet ₹ crore | | | | |
|----------------------------------|-------|-------|-------|-------|
| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
| Equity Capital | 55 | 56 | 56 | 56 |
| Reserve and Surplus | 2,989 | 3,423 | 3,705 | 4,105 |
| Total Shareholders funds | 3,044 | 3,478 | 3,760 | 4,161 |
| Total Debt | - | - | - | - |
| Lease liability | 58 | 112 | 112 | 112 |
| Provisions | 71 | 76 | 76 | 80 |
| Other non current liabilities | 7 | 11 | 11 | 11 |
| Total Liabilities | 3,180 | 3,677 | 3,959 | 4,364 |
| Assets | | | | |
| Property, plant and equipment | 105 | 97 | 236 | 380 |
| Goodwill | 496 | 507 | 507 | 507 |
| Intangibles | 9 | 24 | 24 | 24 |
| Right-of-use assets | 87 | 134 | 108 | 79 |
| Other non current assets | 461 | 538 | 614 | 578 |
| Cash & bank balance | 425 | 445 | 467 | 757 |
| Current Investments | 1,034 | 1,457 | 1,457 | 1,457 |
| Trade receivables | 768 | 791 | 780 | 828 |
| Unbilled revenue | 269 | 189 | 273 | 290 |
| Other financial assets | 3 | 25 | 3 | 3 |
| Other current assets | 269 | 256 | 274 | 291 |
| Total Current Assets | 2,767 | 3,163 | 3,254 | 3,626 |
| Trade payables | 281 | 235 | 235 | 249 |
| Lease liability | 35 | 39 | 39 | 39 |
| OCL & provisions | 430 | 511 | 510 | 542 |
| Total Current Liabilities | 746 | 785 | 784 | 830 |
| Net Current Assets | 2,022 | 2,378 | 2,470 | 2,796 |
| Application of Funds | 3,180 | 3,677 | 3,959 | 4,364 |

Source: Company, ICICI Direct Research

| Exhibit 4: Key ratios | | | | |
|-----------------------------|------|------|-------|-------|
| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
| Per share data (₹) | | | | |
| Diluted EPS | 22.3 | 18.5 | 16.5 | 20.7 |
| Cash EPS | 25.5 | 21.6 | 19.8 | 24.4 |
| BV | 110 | 125 | 135 | 149 |
| DPS | 4.5 | 6.4 | 6.6 | 6.6 |
| Cash Per Share | 15 | 16 | 17 | 27 |
| Operating Ratios (%) | | | | |
| EBITDA margin | 15.8 | 13.0 | 14.0 | 14.4 |
| PBT Margin | 15.8 | 13.0 | 14.0 | 13.8 |
| PAT Margin | 11.8 | 9.6 | 8.7 | 10.2 |
| Debtor days | 53 | 53 | 53 | 53 |
| Unbilled days | 19 | 19 | 19 | 19 |
| Creditor days | 19 | 16 | 16 | 16 |
| Return Ratios (%) | | | | |
| RoE | 20.5 | 14.9 | 12.4 | 14.0 |
| RoCE | 26.9 | 19.6 | 19.4 | 18.5 |
| RoIC | 43.9 | 34.6 | 32.9 | 33.8 |
| Valuation Ratios (x) | | | | |
| P/E | 16.5 | 20.0 | 22.2 | 17.7 |
| EV / EBITDA | 10.5 | 12.0 | 11.1 | 9.8 |
| EV / Net Sales | 1.7 | 1.6 | 1.6 | 1.4 |
| Market Cap / Sales | 1.9 | 1.9 | 1.9 | 1.8 |
| Price to Book Value | 3.4 | 3.0 | 2.7 | 2.5 |
| Solvency Ratios | | | | |
| Debt/EBITDA | - | - | - | - |
| Debt / Equity | - | - | - | - |
| Current Ratio | 1.8 | 1.6 | 1.7 | 1.7 |
| Quick Ratio | 1.8 | 1.6 | 1.7 | 1.7 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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