

CMP: ₹ 410

Target: ₹ 440 (7%)

Target Period: 12 months

HOLD

January 29, 2026

## Another muted quarter; one off led margin beat ...

**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 (38%), BFSI (24%), Energy & Utilities (E&U) (17%) and Lifesciences (21%);

**Q3FY26 Performance:** Revenue stood at US\$ 150.8mn (₹1,348 crore), up 0.3% QoQ CC/ down 6.7% YoY CC. Adj. EBITDA margin (ex-one-off from new labour code) came at 18.2%, up ~212 bps QoQ. Adj. PAT (ex-one-off labour code impact & one-time incremental tax for FY26 taken in Q2) stood at ₹180.2 crore, up 22% QoQ.

### Investment Rationale

- Growth visibility still limited:** Q3 performance indicates stabilization rather than a broad-based recovery. Revenue remained largely flat QoQ and declined YoY, with **growth concentrated in manufacturing (+3.1% QoQ) due to ramp-up of previously paused deals, which management indicated is largely one-time**. Growth drivers appear narrow as key verticals such as BFSI, ER&U and Lifesciences remain soft, and Americas weakness persists. **Headwinds in manufacturing and life sciences which are expected to continue into Q4 & recovery is expected only from Q1/Q2 FY27, leading to a back-ended growth trajectory. Accordingly, we now expect dollar revenue to grow at ~5.2% CAGR over FY26-28E.**
- Margin improvement not fully structural:** The sharp expansion of ~212 bps QoQ to 18.2% adjusted EBITDA margin was aided by improved revenue quality, cost structure optimization, favourable revenue mix shifts to fixed-price/offshore, operational efficiencies, forex tailwinds (~70–80 bps) and one-offs (~110 bps). **Management clarified steady-state EBITDA margins, after planned investments, would be ~15%**. While cost optimization & improved engagement quality support underlying profitability, upcoming investments & pricing pressure, particularly in healthcare and fewer working days in Q4 could keep margins range-bound. **We bake in EBITDA margins of 14.4%/14.9%/15% in FY26E/FY27E/FY28E.**
- Order book strength offsets but does not eliminate demand risks:** TCV rose sharply 89% QoQ to US\$202 mn, but a meaningful portion reflects deal closures slipping from Q2 rather than fresh acceleration in demand. Net-new TCV at ~46% of signings (US\$ 94mn) is healthy and while **Q4 signings may improve over Q3, translating them into sustained revenue growth is likely to remain gradual** as management commentary noted continued cautious demand environment, discretionary spending constraints & delayed revenue conversion, indicating that **order momentum may take time to translate into durable top-line acceleration.**

### Rating and Target Price

- While pipeline building continues, near-term revenue momentum remains uncertain due to sector specific headwinds. We thus maintain **HOLD**, with **target price of ₹440; valuing it at 19x P/E on FY28E EPS vs ₹410 earlier.**

### Key Financial Summary

₹ Crore	FY23	FY24	FY25	5 Year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-28E)
Net Sales	4,795	5,278	5,375	10%	5,338	5,653	6,033	4%
EBITDA	520	836	697	12%	769	842	905	9%
EBITDA Margins (%)	10.9	15.8	13.0		14.4	14.9	15.0	
Net Profit	332	624	517	23%	459	602	655	8%
EPS (₹)	11.9	22.3	18.5		16.3	21.4	23.3	
P/E	34.3	18.3	22.1		24.9	19.0	17.5	
RoNW (%)	13.5	20.5	14.9		12.2	14.4	14.1	
RoCE (%)	18.0	26.9	19.6		19.5	19.1	18.6	

Source: Company, ICICI Direct Research



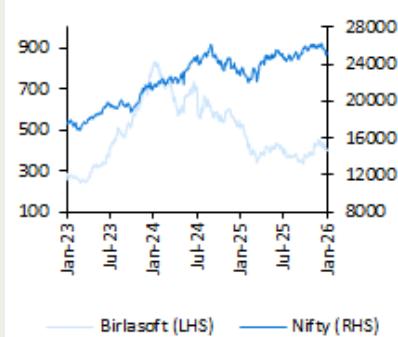
### Particulars

Particular	Amount
Market Cap (₹ Crore)	11,430
Total Debt	-
Cash & Inv (₹ Crore)	1,902
EV (₹ Crore)	9,528
52 week H/L	541/331
Equity capital	55.6
Face value	2.0

### Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	40.6	40.6	40.5	40.5
FII	11.7	12.4	11.3	10.9
DII	24.5	22.4	21.9	24.1
Others	23.2	24.6	26.3	24.5

### Price Chart



### Key risks

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

### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma  
anjini.sharma@icicisecurities.com

## Performance highlights and outlook

- **Revenue Performance:** Birlasoft reported revenue of US\$ 150.8 mn (₹1,348 crore), up 0.3% QoQ/ down 6.7% YoY in CC terms.
- **Geography performance:** %. Geography wise on a QoQ basis, RoW (15% of the mix) grew by 31% while Americas (85% of the mix) declined by 4%.
- **Vertical performance:** Vertical wise on a QoQ basis, the growth was led by Manufacturing (38% of the mix) which grew by 3.1% while ER&U (17% of the mix), BFSI (24% of the mix) and Lifesciences (21% of the mix) de-grew by 2.8%, 2% and 0.4%.
- **Manufacturing strength is seen as temporary due to ramp up of earlier paused deals and other key verticals face near-term softness from tariffs and pricing pressure, especially in healthcare. Manufacturing (ERP) and Lifesciences vertical are expected to face continued headwinds in Q4 and expected to return to growth in Q1/Q2 FY27.**
- **BFSI** was weak, largely due to furloughs, but management expects it to remain steady in Q4 and grow in FY27, supported by AI-led deal wins.
- **Margin performance:** Reported EBITDA margin came at 15.1%, down 90 bps QoQ while Adj. EBITDA margin (ex-one-off from new labour code) came at 18.2%, up ~212 bps QoQ aided by improved revenue quality, cost structure optimization, favorable revenue mix shifts to fixed-price/offshore, operational efficiencies, forex tailwinds (+70–80 bps) and one-offs (+110 bps) from write-backs of past provisions, which are not expected to recur. **Steady-state profitability taking into account some accelerated investments remains closer to ~15%.** Reported PAT stood at ₹120 crore, up 3.3% QoQ while Adj. PAT (ex-one-off labour code impact and one-time incremental tax for FY26 taken in Q2) stood at ₹180.2 crore, up 22% QoQ.
- **Outlook:** Management commentary noted continued cautious demand environment, discretionary spending constraints and delayed revenue conversion. However, it continues to focus on pipeline creation and order booking and expects better deal signings in Q4 vs Q3. On the margins front, it expects sustainable margins post planned investments around the 15% mark going ahead due to pricing pressure in renewals, especially in healthcare business.
- **Wage hike:** A wage hike is planned for the next financial year between Q1 & Q2, with promotions being done this quarter.
- **Deal pipeline:** TCV for the quarter stood at US\$202 mn, up 89% QoQ/ down 11% YoY, with new TCV wins of US\$94 mn i.e., 46% of TCV. **Reported TCV improvement largely reflects deal closures slipping from Q2.**
- **Employee addition & Attrition:** The total headcount for the quarter stood at 11,645 employees, reduction of 247 employees QoQ which was largely due to offshoring. Attrition for the quarter stood at 13.1%, down ~20 bps QoQ.

## Exhibit 1: Quarter Performance

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue	1,348	1,363	-1.1	1,329	1.4	Revenue was up 0.3% QoQ/ down 6.7% YoY in CC terms.
Employee expense	809	833	-2.8	796	1.6	
Gross Margin	538	530	1.6	533	1.0	
Gross margin (%)	39.9	38.9	105 bps	40.1	-14 bps	
Other expense	293	366	-20.0	319	-8.1	
EBITDA	204.1	163.4	24.9	213.3	-4.3	
EBITDA Margin (%)	15.1	12.0	315 bps	16.0	-90 bps	Adj. EBITDA margin (ex-one-off from new labour code) came at 18.2%, up ~212 bps QoQ aided by improved revenue quality, cost structure optimization, favorable revenue mix shifts to fixed-price/offshore, operational efficiencies, forex tailwinds (+70-80 bps) and one-offs (+110 bps) from write-backs of past provisions, which are not expected to recur.
Depreciation & amortisation	20	21	-5.6	20	-0.5	
EBIT	184	142	29.5	193	-4.7	
EBIT Margin (%)	13.7	10.4	323 bps	14.5	-87 bps	
Other income (less interest)	8	14	-44.1	17	-54.4	
PBT	192	156	22.9	210	-8.7	
Tax paid	72	39	84.1	94	-23.5	
PAT	120	117	2.5	116		Adj. PAT (ex-one-off labour code impact and one 3.3 time incremental tax for FY26 taken in Q2) stood at ₹180.2 crore, up 22% QoQ.

Source: Company, ICICI Direct Research

## Exhibit 2: Change in estimates

₹ Crore	FY26E			FY27E			FY28E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue (USD mn)	613	606	-1.2	647	632	-2.4	670
Revenue	5,365	5,338	-0.5	5,695	5,653	-0.7	6,033
EBITDA	753	769	2.1	820	842	2.7	905
EBITDA Margin (%)	14.0	14.4	37 bps	14.4	14.9	50 bps	15.0
PAT	465	459	-1.2	584	602	3.1	655
Diluted EPS (₹)	16.5	16.3	-1.2	20.7	21.4	3.1	23.3

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 1: Profit and loss statement				
(Year-end March)	FY25	FY26E	FY27E	₹ crore
Total operating Income	5,375	5,338	5,653	6,033
Growth (%)	1.8	(0.7)	5.9	6.7
COGS (employee expenses)	3,201	3,210	3,392	3,614
Other expenses	1,477	1,318	1,419	1,514
Total Operating Expenditure	4,678	4,528	4,810	5,128
<b>EBITDA</b>	<b>697</b>	<b>769</b>	<b>842</b>	<b>905</b>
Growth (%)	(16.6)	10.2	9.5	7.5
Depreciation	86	83	92	96
Other income (net)	85	62	62	75
PBT	697	748	812	884
Total Tax	180	289	210	229
<b>PAT</b>	<b>517</b>	<b>459</b>	<b>602</b>	<b>655</b>
Growth (%)	(17.2)	(11.1)	30.9	8.9
<b>Diluted EPS (₹)</b>	<b>18.5</b>	<b>16.3</b>	<b>21.4</b>	<b>23.3</b>
Growth (%)	(16.9)	(11.6)	30.9	8.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
(Year-end March)	FY25	FY26E	FY27E	₹ crore
Profit before Tax	697	748	812	884
Add: Depreciation	86	83	92	96
Others	(22)	(62)	(62)	(75)
Inc/(dec) in working capital	14	(146)	6	(77)
Taxes paid	(188)	(289)	(210)	(229)
<b>CF from operating activities</b>	<b>588</b>	<b>334</b>	<b>638</b>	<b>599</b>
(Inc)/dec in Fixed Assets	(49)	(198)	(210)	(224)
Others	(388)	84	84	96
<b>CF from investing activities</b>	<b>(437)</b>	<b>(114)</b>	<b>(126)</b>	<b>(128)</b>
Dividend paid & dividend tax	(180)	(183)	(183)	(183)
Others	(36)	(21)	(22)	(21)
<b>CF from financing activities</b>	<b>(215)</b>	<b>(204)</b>	<b>(205)</b>	<b>(204)</b>
Net Cash flow	(65)	16	307	267
Exchange difference	(1)	-	-	-
Opening Cash	510	445	460	768
<b>Closing cash &amp; Bank</b>	<b>445</b>	<b>460</b>	<b>768</b>	<b>1,035</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
(Year-end March)	FY25	FY26E	FY27E	₹ crore
Assets				
Property, plant and equipment	97	237	382	539
Goodwill	507	507	507	507
Intangibles	24	24	24	24
Right-of-use assets	134	109	81	52
Other non current assets	538	616	580	620
Cash & bank balance	445	460	768	1,035
Current Investments	1,457	1,457	1,457	1,457
Trade receivables	791	776	822	878
Unbilled revenue	189	272	288	307
Other financial assets	25	3	3	3
Other current assets	256	273	289	308
Total Current Assets	3,163	3,241	3,626	3,988
Trade payables	235	234	247	264
Lease liability	39	39	39	39
OCL & provisions	511	508	537	574
Total Current Liabilities	785	780	824	877
Net Current Assets	2,378	2,461	2,802	3,111
<b>Application of Funds</b>	<b>3,677</b>	<b>3,953</b>	<b>4,376</b>	<b>4,854</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
<b>Per share data (₹)</b>				
Diluted EPS	18.5	16.3	21.4	23.3
Cash EPS	21.6	19.5	24.9	26.9
BV	125	135	150	167
DPS	6.4	6.6	6.6	6.6
Cash Per Share	16	17	28	37
<b>Operating Ratios (%)</b>				
EBITDA margin	13.0	14.4	14.9	15.0
PBT Margin	13.0	14.0	14.4	14.6
PAT Margin	9.6	8.6	10.6	10.9
Debtor days	53	53	53	53
Unbilled days	19	19	19	19
Creditor days	16	16	16	16
<b>Return Ratios (%)</b>				
RoE	14.9	12.2	14.4	14.1
RoCE	19.6	19.5	19.1	18.6
RoIC	34.6	33.8	34.9	34.3
<b>Valuation Ratios (x)</b>				
P/E	22.1	24.9	19.0	17.5
EV / EBITDA	13.7	12.4	10.9	9.9
EV / Net Sales	1.8	1.8	1.6	1.5
Market Cap / Sales	2.1	2.1	2.0	1.9
Price to Book Value	3.3	3.0	2.7	2.5
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.6	1.7	1.7	1.7
Quick Ratio	1.6	1.7	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%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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Name of the Compliance Officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Jeetu Jawrani Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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