

August 11, 2025

Growth remains elusive...

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) (18%) and Lifesciences (20%);

Q1FY26 Performance: Birlasoft reported revenue of US\$ 150.7 mn (₹1,285 crore), down 1.8% QoQ/ 6% YoY in CC terms. The company reported EBITDA margin of 12.4%, down ~80 bps QoQ. PAT stood at ₹106 crore, down 12.8% QoQ due to one-off provision for higher taxes.

Investment Rationale

- Soft Q1 performance with some stability in non-manufacturing verticals:** Birlasoft's largest vertical, Manufacturing, faced pressure from project completions, ramp downs, and insourcing, keeping the growth muted in FY26. However, med-device recovery and steady momentum in digital/data offerings provided selective offsets. Non-manufacturing verticals like ER&U, Lifesciences, and BFSI are showing modest stability, helping cushion overall performance. While macro uncertainties and client spending caution remain headwinds, the company's diversified portfolio offers a base for eventual recovery once demand conditions improve. Even though management expects QoQ growth in Q2, it expects only marginal growth in FY26 amid challenging macro. Accordingly, **we now expect dollar revenue to grow at ~2.5% CAGR (vs 4.6% earlier) over FY25-27E.**
- Stable margins in FY26; Recovery likely in FY27:** Management expects margins to remain stable in FY26 at ~13%, supported by operational efficiencies despite subdued revenue growth. Notably, the anticipated normalisation of the tax rate in FY27 to ~25% from current 35% levels will aid earnings recovery, alongside potential margin expansion as demand stabilises. **We bake in EBITDA margins of 12.8%/13.8% in FY26E/FY27E.**
- Deal conversion delays impacting growth visibility:** TCV for the quarter came in weak at US\$141 mn, down 40.3% QoQ, with new TCV wins of US\$76 mn, down 19% YoY and renewals of US\$65 mn. Delayed client decision-making in a challenging macro has led to muted net new deal signings, constraining near-term revenue visibility. Thus, despite a healthy qualified pipeline, execution gaps in large deal conversions limit the company's ability to regain industry-level growth rates in the short term. Management's expectation of improved closure rates in coming quarters is encouraging, but sustained momentum will be critical for driving a meaningful pickup in revenue growth over the medium term.

Rating and Target Price

- As the near-term growth headwinds persist and weak deal conversions temper our earlier optimism, we downgrade to **HOLD**, with target price of ₹410; valuing it at 20x P/E on FY27E EPS (vs. 22x earlier).

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%	5,344	5,812	4%
EBITDA	520	836	697	12%	686	802	7%
EBITDA Margins (%)	10.9	15.8	13.0		12.8	13.8	
Net Profit	332	624	517	23%	450	582	6%
EPS (₹)	11.9	22.3	18.5		16.0	20.7	
P/E	31.1	16.6	20.1		23.0	17.8	
RoNW (%)	13.5	20.5	14.9		12.0	14.0	
RoCE (%)	18.0	26.9	19.6		18.1	18.2	

Source: Company, ICICI Direct Research

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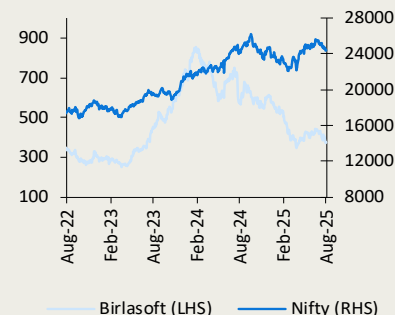
Particulars

Particular	Amount
Market Cap (₹ Crore)	10,313
Total Debt	-
Cash & Inv (₹ Crore)	1,902
EV (₹ Crore)	8,412
52 week H/L	760/ 331
Equity capital	55.6
Face value	2.0

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	40.9	40.8	40.6	40.6
FII	11.7	11.1	11.7	12.4
DII	24.3	24.6	24.5	22.4
Others	23.2	23.5	23.2	24.6

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 (₹1,285 crore), down 1.8% QoQ/ 6% YoY in CC terms. The decline was led by weakness in Manufacturing vertical as it faces pressure from project completions, ramp downs, and insourcing.
- **Geography performance:** Geography wise on a QoQ basis, RoW (14% of the mix) grew by 3.5% while Americas (86% of the mix) declined by 1.7%.
- **Vertical performance:** Vertical wise on a QoQ basis, the growth was led by ER&U (18% of the mix), Lifesciences (20% of the mix) and BFSI (24% of the mix) which were up 1.9%, 1% and 0.7% while Manufacturing (38% of the mix) declined by 4.2%.
- **Margin performance:** The company reported EBITDA of ₹158.8 crore, down 8.5% QoQ, translating to an EBITDA margin of 12.4%, down ~80 bps QoQ. PAT stood at ₹106 crore, down 12.8% QoQ due to one-off provision for higher taxes.
- **Revenue & Margin Guidance:** The management expects positive QoQ growth in Q2, however, for FY26, the aim is to deliver some positive growth amid macro concerns and shall be contingent on deal pipeline conversion. On the margins front, the management has guided for flattish margins in FY26 (~13%) with a gradual improvement from FY27 onwards.
- **Deal pipeline:** TCV for the quarter stood at US\$141 mn, down 40.3% QoQ, with new TCV wins of US\$76 mn, down 19% YoY and renewals of US\$65 mn.
- **Employee addition & Attrition:** The total headcount for the quarter stood at 11,834 employees, a net decline of 96 employees QoQ. Attrition for the quarter stood at 13.3%, up ~50 bps QoQ.

Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue	1,285	1,327	-3.2	1,317	-2.4	Revenue declined by 1.8% QoQ and 6% YoY in CC terms
Employee expense	779	760	2.4	778	0.1	
Gross Margin	506	567	-10.8	539	-6.0	
Gross margin (%)	39.4	42.7	-334 bps	40.9	-151 bps	
Other expense	347	372	-6.6	365	-4.9	
EBITDA	158.8	195.1	-18.6	173.6	-8.5	Management expects margins to remain stable in FY26 at ~13%, supported by operational efficiencies despite subdued revenue growth.
EBITDA Margin (%)	12.4	14.7	-234 bps	13.2	-82 bps	
Depreciation & amortisation	21	21	0.9	22	-4.0	
EBIT	138	175	-20.9	152	-9.2	
EBIT Margin (%)	10.7	13.1	-240 bps	11.5	-80 bps	
Other income (less interest)	28	30	-7.3	14	95.9	
PBT	166	205	-18.9	166	-0.1	
Tax paid	60	55	9.3	44	35.2	
PAT	106	150	-29.1	122	-12.8	PAT saw a decline due to one-off provision for higher taxes. Notably, the anticipated normalisation of the tax rate in FY27 to ~25% from current 35% levels will aid earnings recovery, alongside potential margin expansion as demand stabilises.

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	5,344	5,812
Growth (%)	10.1	1.8	(0.6)	8.8
COGS (employee expenses)	3,048	3,201	3,200	3,441
Other expenses	1,394	1,477	1,457	1,569
Total Operating Expenditure	4,442	4,678	4,658	5,010
EBITDA	836	697	686	802
Growth (%)	60.7	(16.6)	(1.6)	16.8
Depreciation	85	86	88	96
Other income (net)	84	85	96	71
PBT	835	697	695	778
Total Tax	211	180	245	196
PAT	624	517	450	582
Growth (%)	88.1	(17.2)	(12.9)	29.2
Diluted EPS (₹)	22.3	18.5	16.0	20.7
Growth (%)	86.7	(16.9)	(13.4)	29.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before Tax	835	697	695	778
Add: Depreciation	85	86	88	96
Others	52	(22)	(96)	(71)
Inc/(dec) in working capital	(73)	14	(115)	(41)
Taxes paid	(181)	(188)	(245)	(196)
CF from operating activities	718	588	327	565
(Inc)/dec in Fixed Assets	(26)	(49)	(198)	(216)
Others	(601)	(388)	116	87
CF from investing activities	(627)	(437)	(82)	(128)
Dividend paid & dividend tax	(124)	(180)	(183)	(183)
Others	(44)	(36)	(20)	(16)
CF from financing activities	(168)	(215)	(203)	(199)
Net Cash flow	(76)	(65)	42	238
Exchange difference	2	(1)	-	-
Opening Cash	499	510	445	487
Closing cash & Bank	425	445	487	725

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	3,690	4,089
Total Shareholders funds	3,044	3,478	3,746	4,144
Total Debt	-	-	-	-
Lease liability	58	112	112	112
Provisions	71	76	75	82
Other non current liabilities	7	11	11	11
Total Liabilities	3,180	3,677	3,944	4,349
Assets				
Property, plant and equipment	105	97	234	382
Goodwill	496	507	507	507
Intangibles	9	24	24	24
Right-of-use assets	87	134	107	78
Other non current assets	461	538	584	580
Cash & bank balance	425	445	487	725
Current Investments	1,034	1,457	1,457	1,457
Trade receivables	768	791	777	845
Unbilled revenue	269	189	272	296
Other financial assets	3	25	3	3
Other current assets	269	256	273	297
Total Current Assets	2,767	3,163	3,269	3,623
Trade payables	281	235	234	254
Lease liability	35	39	39	39
OCL & provisions	430	511	508	553
Total Current Liabilities	746	785	781	846
Net Current Assets	2,022	2,378	2,488	2,777
Application of Funds	3,180	3,677	3,944	4,349

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	16.0	20.7
Cash EPS	25.5	21.6	19.3	24.3
BV	110	125	134	149
DPS	4.5	6.4	6.6	6.6
Cash Per Share	15	16	17	26
Operating Ratios (%)				
EBITDA margin	15.8	13.0	12.8	13.8
PBT Margin	15.8	13.0	13.0	13.4
PAT Margin	11.8	9.6	8.4	10.0
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	12.0	14.0
RoCE	26.9	19.6	18.1	18.2
RoIC	43.9	34.6	30.0	32.7
Valuation Ratios (x)				
P/E	16.6	20.1	23.0	17.8
EV / EBITDA	10.6	12.1	12.2	10.1
EV / Net Sales	1.7	1.6	1.6	1.4
Market Cap / Sales	2.0	1.9	1.9	1.8
Price to Book Value	3.4	3.0	2.8	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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Reduce: -15% to -5%;

Sell: <-15%



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