

May 29, 2025

Subdued quarter; Meaningful recovery likely in FY27...

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

- It caters to four verticals - Manufacturing (40%), BFSI (24%), Energy & Utilities (E&U) (17%) and Lifesciences (19%);
- It has delivered strong profit growth of 19.2% CAGR over FY20-25.

Q4FY25 Performance: Birlasoft reported revenue of US\$ 152.2 mn (₹1,317 crore), down 5.3% QoQ/ 6.9% YoY in CC terms. The company reported EBITDA margin of 13.2%, up ~120 bps QoQ. In FY25, the company reported revenue of ₹5,375.2 crore, up 1.8% YoY. EBITDA margin stood at 13%, down ~287 bps YoY.

Investment Rationale

- FY26 to be a washout year, recovery expected in FY27:** Revenue performance in Q4 remained soft, owing to the anticipated residual drag from elevated furloughs, alongside client specific challenges such as ramp down & insourcing, in Manufacturing and Lifesciences vertical, which is expected to weigh on Q1 revenues as well, leading to a subdued start to the fiscal year. Thus, while Q1 is likely to be muted, management expects improvement from Q2 onwards as new deal wins start to contribute meaningfully. For FY26, the company is targeting flat to marginally positive revenue growth, with a more meaningful recovery anticipated in FY27, contingent on deal pipeline conversion. Accordingly, **we now expect dollar revenue to grow at ~4.6% CAGR over FY25-27E.**
- Margins to recover gradually, led by efficiencies:** In Q4 the margin tailwind has largely been on account of lower variable pay & leave encashment for senior executives and favourable currency movements. However, with demand conditions remaining challenging, the focus remains on pruning tail accounts and driving organic growth through operational efficiencies. Management has guided for flattish margins in FY26 with a gradual improvement toward its aspirational 15-16% range from FY27 onwards. **We bake in EBITDA margins of 13.2%/14% in FY26E/FY27E.**
- Deal wins lend visibility to medium-long term growth:** TCV for the quarter stood at US\$236 mn, up 4.4% QoQ, comprising new TCV wins of US\$ 112 mn - including a multi-year deal with a new customer in the ROW region (UK) - and renewals of US\$124 mn. Notably, new deal TCV accounted for nearly 50% of total TCV in the quarter, which is a positive lead indicator for revenue growth. Moreover, the increasing share of annuity-based multi-year engagements provides better revenue visibility and is expected to support a more stable growth trajectory over the medium to long term.

Rating and Target Price

- Given the recent stock price correction of ~30% over past 6 months, we believe most of the performance weakness is now priced in and thus risk-reward has turned favourable. We upgrade to **BUY, with target price of ₹500; valuing it at 22x 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%	5,467	6,043	6%
EBITDA	520	836	697	12%	724	846	10%
EBITDA Margins (%)	10.9	15.8	13.0		13.2	14.0	
Net Profit	332	624	517	23%	540	619	9%
EPS (₹)	11.9	22.3	18.5		19.2	22.0	
P/E	34.9	18.6	22.5		21.5	18.8	
RoNW (%)	13.5	20.5	14.9		14.1	14.5	
RoCE (%)	18.0	26.9	19.6		18.3	18.8	

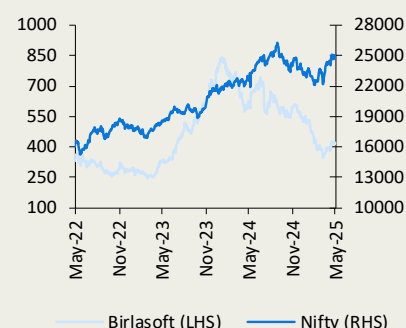
Source: Company, ICICI Direct Research

birlasoft
 CK BIRLA GROUP
Particulars

Particular	Amount
Market Cap (₹ Crore)	11,666
Total Debt	-
Cash & Inv (₹ Crore)	1,902
EV (₹ Crore)	9,764
52 week H/L	760/ 331
Equity capital	55.6
Face value	2.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	40.9	40.9	40.8	40.6
FII	18.8	11.7	11.1	11.7
DII	20.9	24.3	24.6	24.5
Others	19.4	23.2	23.5	23.2

Price Chart**Key risks**

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

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Performance highlights and outlook

- **Revenue Performance:** Birlasoft for Q4FY25 reported revenue of US\$ 152.2 mn (₹1,317 crore), down 5.3% QoQ/ 6.9% YoY in CC terms. In FY25, the company reported revenue of ₹5,375.2 crore, up 1.8% YoY. The decline in revenues was on account of extended furloughs, project closures, ramp downs and insourcing in clients in the Manufacturing and Lifesciences vertical.
- **Geography performance:** Geography wise on a QoQ basis, RoW (13.1% of the mix) grew by 1.6% while Americas (87% of the mix) declined by 6.3% QoQ.
- **Vertical performance:** Vertical wise on a QoQ basis, the growth was led by ER&U (17% of the mix) which was up 1.9% while Lifesciences (19.6% of the mix), Manufacturing (39.5% of the mix) and BFSI (24% of the mix) declined by 7.2%, 6.8% and 5.7% respectively.
 - **BFSI:** The vertical saw a substantial decline in the quarter on account of soft performance of cards & payments and asset management companies which form a major part of the company's revenue mix. Going ahead, the management mentioned that the BFSI vertical will see a muted performance for a few quarters and will eventually grow.
 - **Lifesciences:** Their Lifesciences business is predominantly a MedTech business which is seeing cautious spending by the customers due to trade related uncertainties. At least three of their customers have ramped down their projects. However, the company has not lost any customer/account and expects the vertical to start growing Q2FY26 onwards.
- **ERP & Infrastructure:** This segment saw a decline of 6% after two quarters of reported growth. The management highlighted that they're making increased investments in the ERP space and that Infrastructure investments are weighing on the margins.
- **Margin performance:** The company reported EBITDA of ₹ 173.6 crore, up 6.2% QoQ, translating to an EBITDA margin of 13.2%, up ~120 bps QoQ primarily on account of lower variable pay and leave encashment for their senior executives and currency benefits together accounting ~200 bps. PAT for the quarter stood at ₹122.1 crore, up 4.4%. In FY25, EBITDA stood at ₹697.4 crore, down 16.6% YoY, translating to an EBITDA margin of 13%, down ~287 bps YoY. PAT stood at ₹516.8 crore, down 17.2% YoY.
- **Revenue & Margin Guidance:** The management highlighted that Q1FY26 is likely to be muted on the revenue front, and **improvement is expected from Q2 onwards** as new deal wins start to contribute meaningfully. **For FY26, the company is targeting flat to marginally positive revenue growth, with a more meaningful recovery anticipated in FY27, contingent on deal pipeline conversion. On the margins front, the management has guided for flattish margins in FY26 (~13%) with a gradual improvement toward its aspirational 15–16% range from FY27 onwards.**
- **Deal pipeline:** TCV for the quarter stood at US\$236 mn, up 4.4% QoQ, with new TCV wins of US\$ 112 mn, up 75% QoQ (including a multi-year engagement with a new customer in the ROW region (UK), and renewals of US\$124 mn. Company. For FY25, TCV stood at US\$ 758 mn, down 13% YoY.
- **Employee addition & Attrition:** The total headcount for the quarter stood at 11,930 employees, a net decline of 195 employees. Attrition for the quarter stood at 13%, down ~10 bps QoQ. In FY25, the total employees stood at 49,498 employees.
- **Dividend:** The company declared a dividend of ₹ 4 per share in the quarter leading to a total dividend of ₹6.5 per share for FY25.

Quarter Performance

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments	FY25	FY24	YoY (%)
Revenue	1,317	1,363	-3.4	1,363	-3.4	Revenue declined by 5.3% QoQ and 6.9% YoY in CC terms	5,375	5,278	1.8
Employee expense	778	768	1.3	833	-6.6		3,201	3,048	5.0
Gross Margin	539	595	-9.4	530	1.7		2,174	2,230	-2.5
Gross margin (%)	40.9	43.6	-273 bps	38.9	203 bps		40	42	-179 bps
Other expense	365	373	-2.1	366	-0.3		1,477	1,394	6.0
EBITDA	173.6	221.7	-21.7	163.4	6.2		697.4	836.2	-16.6
EBITDA Margin (%)	13.2	16.3	-309 bps	12.0	119 bps	EBITDA margins declined on account of extended furloughs in Q4 and ramp down and insourcing in some large clients (Manufacturing and Lifesciences)	13.0	15.8	-287 bps
Depreciation & amortisation	22	21	2.6	21	1.8		85.7	85.0	0.8
EBIT	152	201	-24.2	142	6.9		612	751	-18.6
EBIT Margin (%)	11.5	14.7	-318 bps	10.4	111 bps		11	14	-285 bps
Other income (less interest)	14	42	-65.5	14	3.9		109	104	4.9
PBT	166	242	-31.3	156	6.6		720	855	-15.7
Tax paid	44	62	-28.9	39	13.2		180	211	-14.7
PAT	122	180	-32.2	117	4.4		540	644	-16.1

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	5,467	6,043
Growth (%)	10.1	1.8	1.7	10.5
COGS (employee expenses)	3,048	3,201	3,253	3,565
Other expenses	1,394	1,477	1,490	1,631
Total Operating Expenditure	4,442	4,678	4,743	5,197
EBITDA	836	697	724	846
Growth (%)	60.7	(16.6)	3.8	16.9
Depreciation	85	86	92	96
Other income (net)	84	85	90	78
PBT	835	697	721	828
Total Tax	211	180	182	209
PAT	624	517	540	619
Growth (%)	88.1	(17.2)	4.4	14.7
Diluted EPS (₹)	22.3	18.5	19.2	22.0
Growth (%)	86.7	(16.9)	3.8	14.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before Tax	835	697	721	828
Add: Depreciation	85	86	92	96
Others	52	(22)	(90)	(78)
Inc/(dec) in working capital	(73)	14	(88)	(115)
Taxes paid	(181)	(188)	(182)	(209)
CF from operating activities	718	588	454	522
(Inc)/dec in Fixed Assets	(26)	(49)	(203)	(224)
Others	(601)	(388)	105	93
CF from investing activities	(627)	(437)	(98)	(131)
Dividend paid & dividend tax	(124)	(180)	(183)	(183)
Others	(44)	(36)	(15)	(15)
CF from financing activities	(168)	(215)	(198)	(198)
Net Cash flow	(76)	(65)	158	193
Exchange difference	2	(1)	-	-
Opening Cash	499	510	445	603
Closing cash & Bank	425	445	603	796

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	3,779	4,216
Total Shareholders funds	3,044	3,478	3,835	4,271
Total Debt	-	-	-	-
Lease liability	58	112	112	112
Provisions	71	76	77	85
Other non current liabilities	7	11	11	11
Total Liabilities	3,180	3,677	4,035	4,479
Assets				
Property, plant and equipment	105	97	235	392
Goodwill	496	507	507	507
Intangibles	9	24	24	24
Right-of-use assets	87	134	106	77
Other non current assets	461	538	545	606
Cash & bank balance	425	445	603	796
Current Investments	1,034	1,457	1,457	1,457
Trade receivables	768	791	795	879
Unbilled revenue	269	189	278	308
Other financial assets	3	25	3	3
Other current assets	269	256	279	308
Total Current Assets	2,767	3,163	3,415	3,751
Trade payables	281	235	239	265
Lease liability	35	39	39	39
OCL & provisions	430	511	520	575
Total Current Liabilities	746	785	798	878
Net Current Assets	2,022	2,378	2,617	2,873
Application of Funds	3,180	3,677	4,035	4,479

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	19.2	22.0
Cash EPS	25.5	21.6	22.7	25.6
BV	110	125	138	153
DPS	4.5	6.4	6.6	6.6
Cash Per Share	15	16	22	29
Operating Ratios (%)				
EBITDA margin	15.8	13.0	13.2	14.0
PBT Margin	15.8	13.0	13.2	13.7
PAT Margin	11.8	9.6	9.9	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	14.1	14.5
RoCE	26.9	19.6	18.3	18.8
RoIC	43.9	34.6	32.1	33.8
Valuation Ratios (x)				
P/E	18.7	22.7	21.7	19.0
EV / EBITDA	12.2	14.0	13.3	11.1
EV / Net Sales	1.9	1.8	1.8	1.6
Market Cap / Sales	2.2	2.2	2.1	1.9
Price to Book Value	3.8	3.4	3.1	2.7
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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