

CMP: ₹ 350

Target: ₹ 420 (20%)

Target Period: 12 months

BUY

August 4, 2022

Client specific issues impact Q1 performance...

About the stock: Birlasoft Ltd (Birlasoft) has strength in non-ERP digital businesses like CRM, B & data analytics, app development & enterprise solution.

- The company caters to manufacturing, BFSI, energy & utility and life sciences
- Debt free and healthy double digit return ratio (with RoCE of >19%)

Q1FY23 Results: Birlasoft reported muted numbers.

- Revenue was up 2.3% in CC, 1.5% QoQ in dollar terms
- EBITDA margins were down ~115 bps QoQ to 14.7%
- Deal pipeline is up at US\$1.7 billion (bn) in Q1 from US\$1.2 bn in FY22

What should investors do? Birlasoft's share price has grown by ~3x since it demerger (from ~₹ 114 in February 2019 to ~₹ 350 levels in August 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Birlasoft at ₹ 420 i.e. 21x P/E on FY24E EPS.

Key triggers for future price performance:

- Revenue growth is expected to be achieved via client mining, cross sell, multi-year deals, expansion in Europe & APAC and focus on niche verticals
- Aspiration to reach US\$1 bn revenues, out of which US\$800-850 mn organic growth while rest from inorganic opportunities
- Expect dollar revenues to grow at 12.5% CAGR over FY22-24E
- Margin expansion of 50 bps to 16.0% over FY22-24E

Alternate Stock Idea: Apart from Birlasoft, in our IT coverage we also like Mastek.

- Growth in new logo acquisition, increasing deal size, expansion of sales & marketing and market share gains to drive revenues
- HOLD with target price of ₹ 2,000



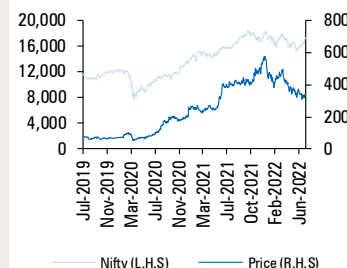
Particulars

Particular	Amount
Market Cap (₹ Crore)	9,682
Total Debt	-
Cash and Invest (₹ Crore)	1,169
EV (₹ Crore)	8,513
52 week H/L	586/ 307
Equity capital	55.9
Face value	2.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	40.7	40.6	40.4	40.3
FII	17.4	17.4	15.4	15.2
DII	22.0	21.4	22.7	21.1
Public	20.0	20.7	21.4	21.4

Price Chart



Recent event & key risks

- Buyback at ₹ 500 per share
- Key Risk:** (i) Decline in TCv, (ii) Lower than expected margins

Research Analyst

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	3,291	3,556	4,130	17.4%	4,767	5,339	13.7%
EBITDA	392	529	640	27.8%	713	854	15.5%
EBITDA Margins (%)	11.9	14.9	15.5		15.0	16.0	
Net Profit	224	321	464	19.5%	470	565	10.4%
EPS (₹)	8.1	11.6	16.3		16.6	19.9	
P/E	43.2	30.3	21.1		20.8	17.3	
RoNW (%)	11.9	14.7	17.9		16.6	17.9	
RoCE (%)	17.0	19.8	23.1		22.1	23.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter grew 1.5% QoQ in dollar terms to US\$148.6 mn while in CC terms it reported growth of 2.3% QoQ. In rupee terms, the company reported revenue growth of 4.8% QoQ to ₹ 1,154.4 crore
- The company indicated that it had signed two large deals (one is 1.5 years in duration while other one is of three years) in the band of US\$15-20 mn in Q4, which were to be executed in Q1FY23. However, as these projects were delayed due to client specific issues on re-alignment of their business models, the impact on revenues was to the tune of US\$2 mn for the quarter. The company indicated that the deals were not delayed to macroeconomic headwinds but due to internal realignment of their business model. The company also indicated that one of the projects was started at the end of Q1 while the other is yet to start. It is hopeful on starting the same. The company also maintained its 15% revenue growth guidance for FY23 as it expects growth to pick up in subsequent quarters
- The company also indicated that it was witnessing supply side constraints due to delay in joining of some employees, which also had an impact on revenues for the quarter
- Geography wise, US (84.9% mix) grew 4.8% QoQ. Europe (9.2% mix) declined 16.6% QoQ & RoW declined 9.3% QoQ. The company indicated that Europe region reported flattish growth in CC terms but reported revenue decline due to cross currency impact. Vertical wise revenue from manufacturing & BFSI grew 2.8% & 5% QoQ, respectively, while energy & utilities and Lifescience declined 3.9% & 0.4% QoQ, respectively
- The company reported EBITDA margin decline of ~115 bps QoQ to 14.7%. The company reported an EBITDA of ₹ 169.8 crore, down 2.7% QoQ. The company indicated that the decline in EBITDA margin was on account of an increase in sub-contractor cost, higher cost of hiring & lower utilisation and also some incremental costs regarding payments to consultants for strategy formulation for its US\$1 bn revenue aspiration by FY25. The company indicated that payments to consultants is a recurring cost for the next few quarters
- The company indicated that it will roll out wage hikes in Q2 but it guided that it will maintain its EBITDA guidance of 15% for FY23 and indicated following levers for margin improvement in subsequent quarters:
 - i) Moderation of sub-contractor cost: The company indicated it is expected to focus on replacement of sub-contractors onsite with their own employees, which is expected to improve margins by at least 100-150 bps
 - ii) Improvement in utilisation: The company reported that its utilisation dropped 270 bps QoQ to 82.5%. Birlasoft indicated that the drop was due to delay in start of two large deals as well as delay in new joinees. The company indicated that the utilisation levels are expected to improve from Q2 onwards and it is expected to reach historical levels of around 85% in a few quarters from now
- The company reported TCW of US\$185 mn, down 16.7% QoQ. Birlasoft reported it signed new deals of US\$112 mn, down 10.4% QoQ while renewals were at US\$73 mn, down 24.7% QoQ. The company indicated that the funnel continues to be strong as it has increased to US\$1.7 bn in Q1 from US\$1.2 bn in FY22 and is not witnessing any slowdown in tech spending due to macro concerns
- Birlasoft indicated that it has changed its LTM attrition accounting to align with the industry. The company reported LTM attrition of 27.9%, down 150 bps QoQ. Birlasoft added 364 net new employees including 200 freshers taking its total headcount to 12,565. The company indicated that it will hire 500 freshers in Q2 as it is ramping up for increased demand

- The Board of directors approved the buyback of 78,00,000 shares for ₹ 500 each through tender route through postal ballot on June 30, 2022. The company has initiated dispatching the letter of offer to eligible shareholders. Birlasoft indicated that the tendering period for buyback will commence from August 11, 2022 and conclude on August 26, 2022

Exhibit 1: P&L

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,154	945	22.1	1,101	4.8	Revenue was impacted client specific issues with couple of clients, impact of US\$2mn
Employee expense	658	556	18.3	630	4.5	
Gross Margin	497	389	27.5	472	5.3	
Gross margin (%)	43.0	41.2	183 bps	42.8	18 bps	
Other expense	327	238	37.2	297	9.9	Other exp. Increased due to higher sub-contractor cost, lower utilization & increase in cost of hirings and on account of consultant charges for US\$1bn revenue aspiration
EBITDA	169.8	151.1	12.4	174.5	-2.7	
EBITDA Margin (%)	14.7	16.0	-127 bps	15.8	-114 bps	
Depreciation & amortisation	20	18	6.5	20	-1.6	
EBIT	150	133	13.2	155	-2.9	
EBIT Margin (%)	13.0	14.0	-102 bps	14.0	-103 bps	
Other income (less interest)	15	21	-27.9	23	-31.6	
PBT	166	154	7.5	177	-6.5	
Tax paid	42	38	10.8	41	2.3	
PAT	124	116	6.4	136	-9.2	

Source: Company, ICICI Direct Research

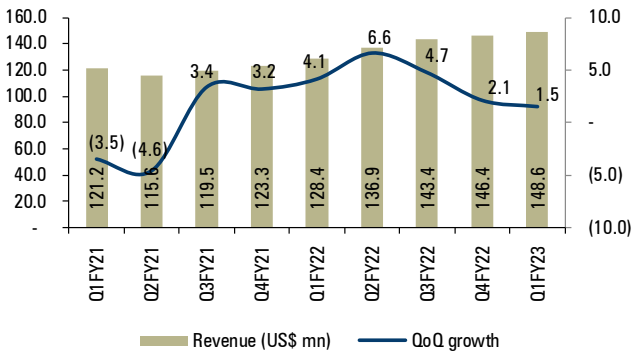
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,829	4,767	-1.3	5,385	5,339	-0.8	We align numbers as per Q1 performance
EBITDA	758	713	-6.0	862	854	-0.8	
EBITDA Margin (%)	15.7	15.0	-75 bps	16.0	16.0	0 bps	Margins aligned as per management guidance for FY23
PAT	503	470	-6.4	570	565	-0.8	
EPS (₹)	18	16.6	-6.4	20.1	19.9	-0.8	

Source: Company, ICICI Direct Research

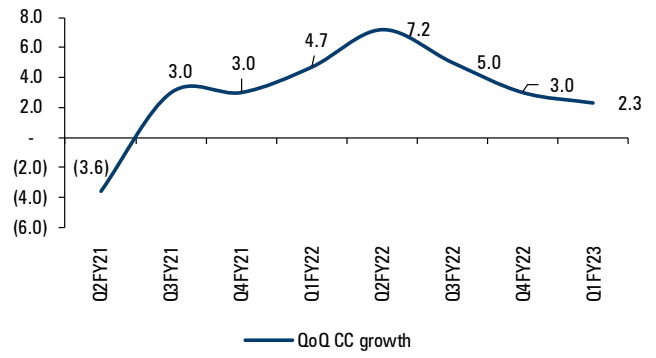
Key Metrics

Exhibit 3: Revenue (in US\$ mn) with QoQ growth



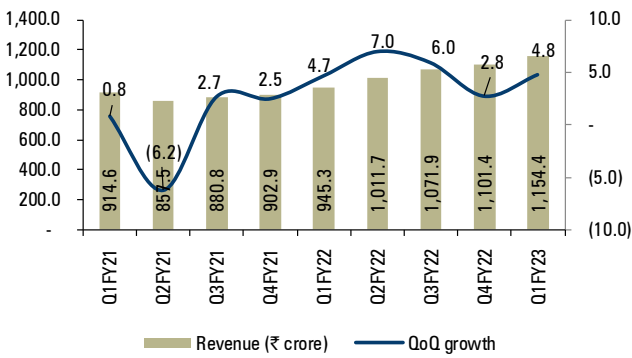
Source: Company, ICICI Direct Research

Exhibit 4: QoQ CC growth



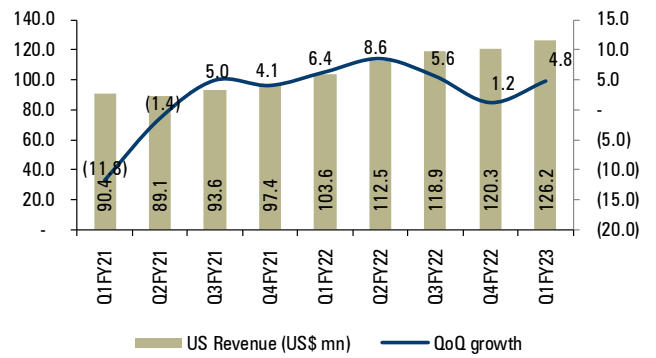
Source: Company, ICICI Direct Research

Exhibit 5: Revenue (in ₹ crore) with QoQ growth



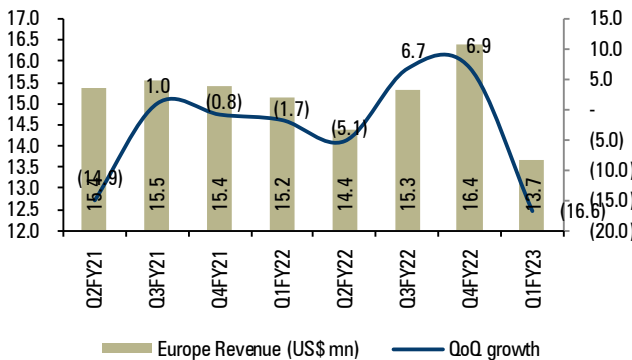
Source: Company, ICICI Direct Research

Exhibit 6: US region revenue with QoQ growth



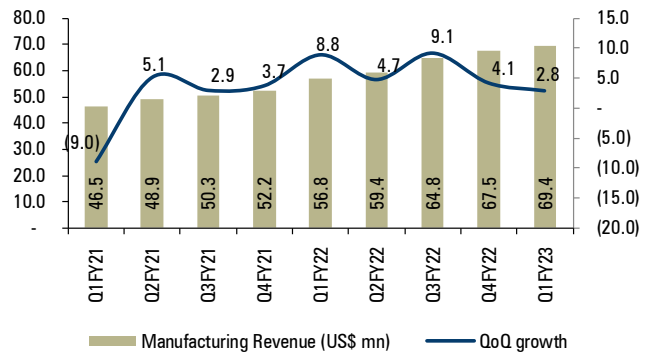
Source: Company, ICICI Direct Research

Exhibit 7: Europe region revenue with QoQ growth



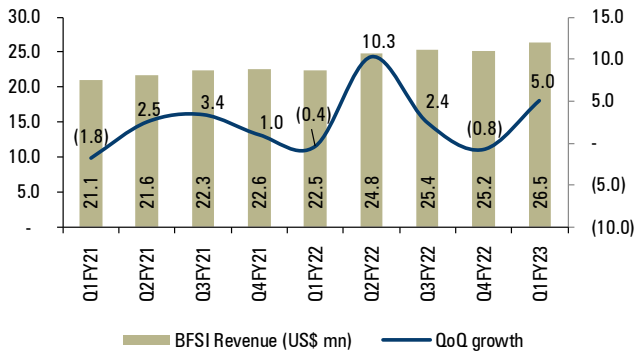
Source: Company, ICICI Direct Research

Exhibit 8: Manufacturing revenue with QoQ growth



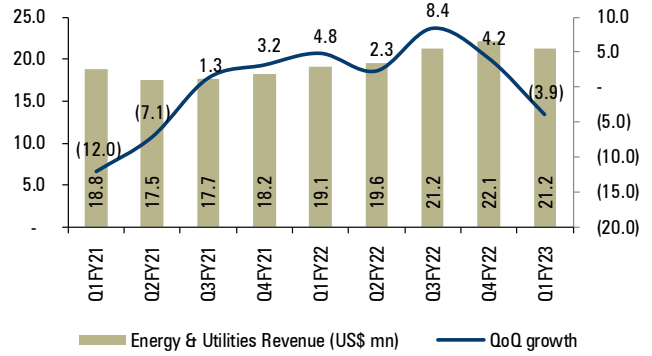
Source: Company, ICICI Direct Research

Exhibit 9: BFSI revenue with QoQ growth



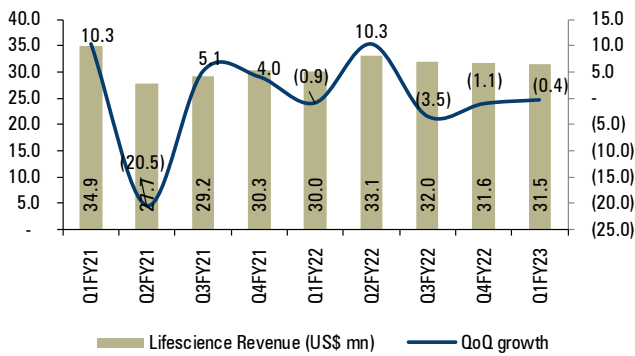
Source: Company, ICICI Direct Research

Exhibit 10: Energy & Utilities revenue with QoQ growth



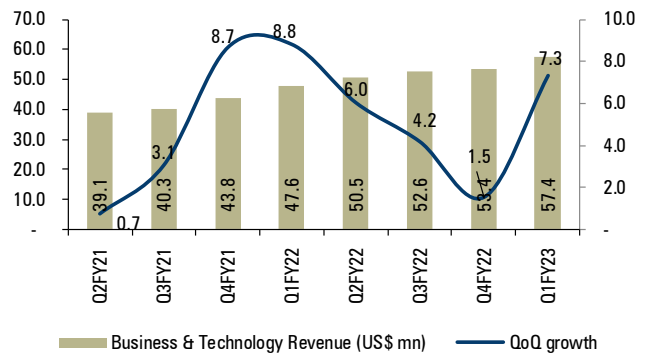
Source: Company, ICICI Direct Research

Exhibit 11: Lifescience revenue with QoQ growth



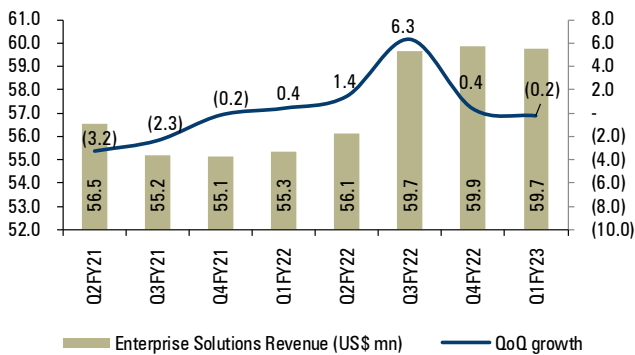
Source: Company, ICICI Direct Research

Exhibit 12: Business & Tech revenue with QoQ growth



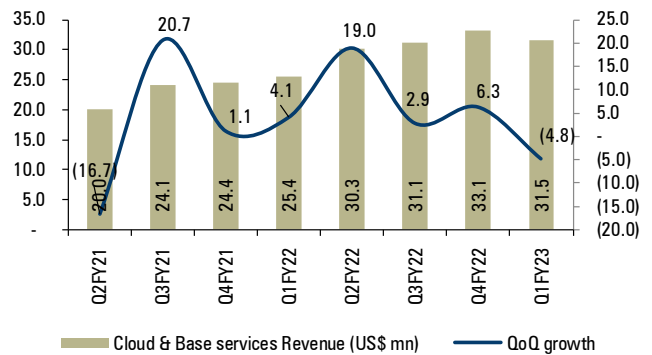
Source: Company, ICICI Direct Research

Exhibit 13: Enterprise solutions revenue with QoQ growth



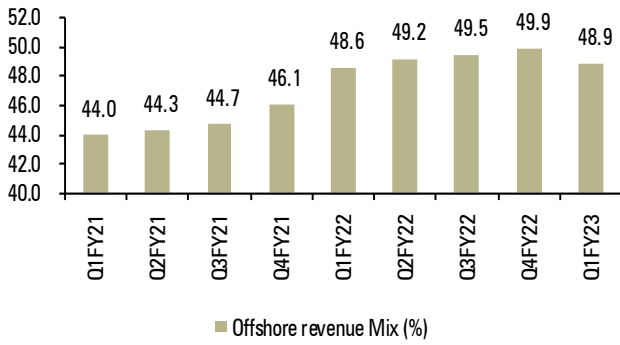
Source: Company, ICICI Direct Research

Exhibit 14: Cloud & Base services revenue with QoQ growth



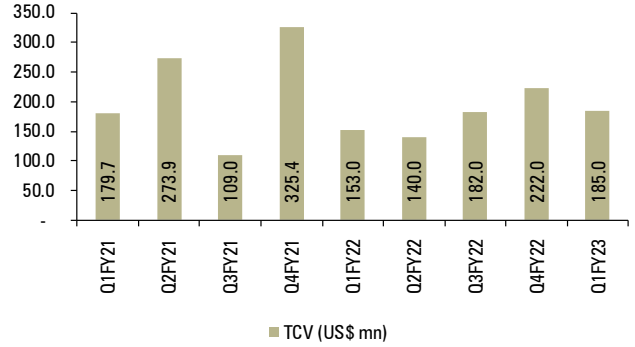
Source: Company, ICICI Direct Research

Exhibit 15: Onsite & offshore mix



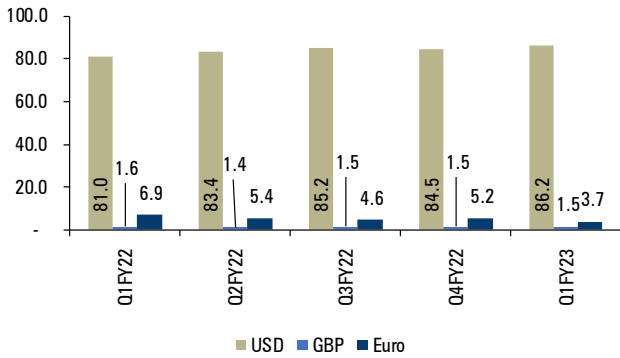
Source: Company, ICICI Direct Research

Exhibit 16: TCV trend



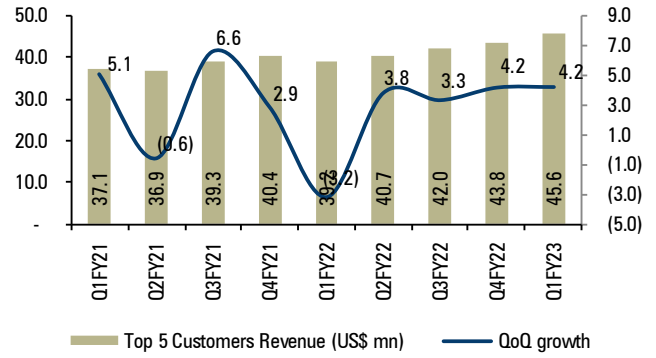
Source: Company, ICICI Direct Research

Exhibit 17: Currency mix of revenue (%)



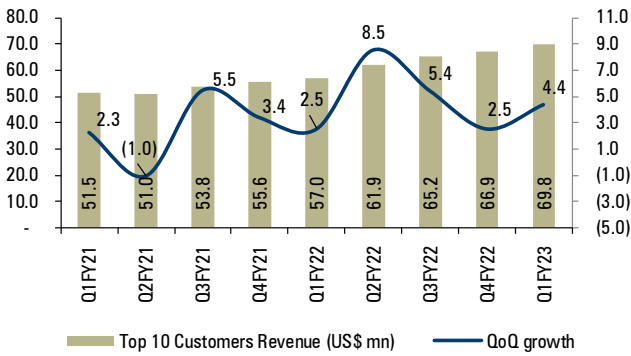
Source: Company, ICICI Direct Research

Exhibit 18: Top five customers revenue with QoQ growth



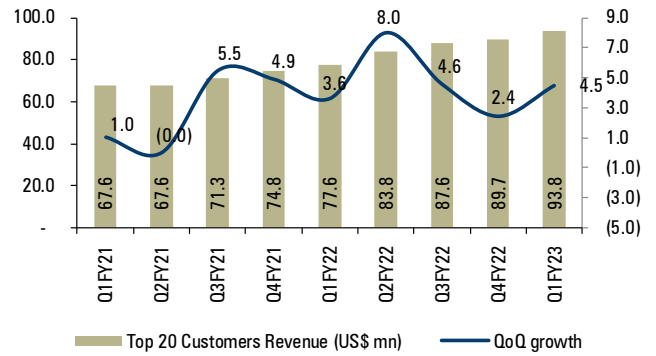
Source: Company, ICICI Direct Research

Exhibit 19: Top 10 customers revenue with QoQ growth



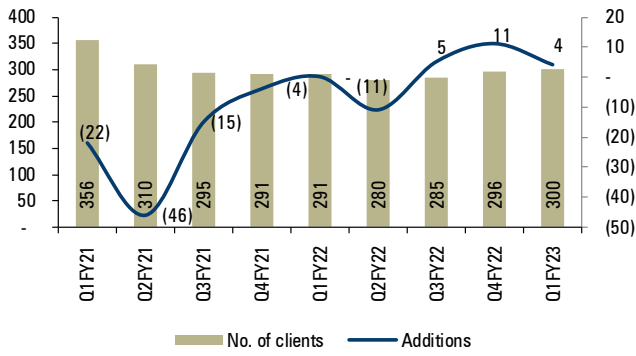
Source: Company, ICICI Direct Research

Exhibit 20: Top 20 customers revenue with QoQ growth



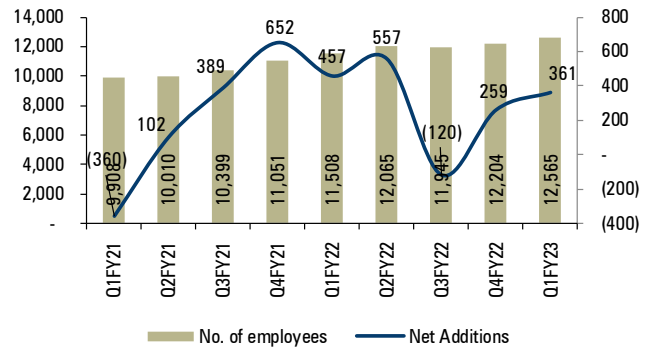
Source: Company, ICICI Direct Research

Exhibit 21: Number of clients with additions



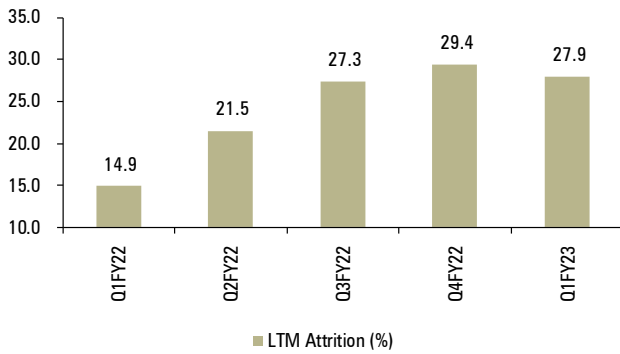
Source: Company, ICICI Direct Research

Exhibit 22: Number of employees with net additions



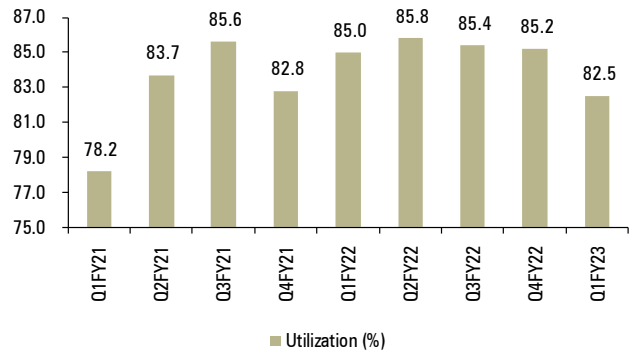
Source: Company, ICICI Direct Research

Exhibit 23: LTM attrition trend



Source: Company, ICICI Direct Research

Exhibit 24: Utilisation trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 25: Profit & loss statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating income	3,556	4,130	4,767	5,339
Growth (%)	8.0	16.2	15.4	12.0
COGS (employee expenses)	2,116	2,369	2,751	3,043
Other expenses	911	1,121	1,304	1,442
Total Operating Expenditure	3,027	3,490	4,055	4,485
EBITDA	529	640	713	854
Growth (%)	35.0	21.0	11.3	19.9
Depreciation	80	77	95	107
Other income (net)	6	53	27	27
PBT	455	617	644	774
Total Tax	134	153	174	209
PAT	321	464	470	565
Growth (%)	43.0	44.6	1.4	20.2
Diluted EPS (₹)	11.6	16.3	16.6	19.9
Growth (%)	44.0	40.7	1.4	20.2

Source: Company, ICICI Direct Research,

Exhibit 26: Cash flow statement (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit	321	464	644	774
Add: Depreciation	80	77	95	107
Others	5	22	(27)	(27)
Inc/(dec) in working capital	84	(256)	(122)	(125)
Taxes paid	(67)	(178)	(174)	(209)
CF from operating activiti	558	281	416	520
(Inc)/dec in Fixed Assets	(25)	(64)	(81)	(91)
Others	(420)	(243)	40	40
CF from investing activiti	(444)	(307)	(41)	(51)
Dividend paid & dividend tax	(55)	(111)	(227)	(227)
Others	(41)	(36)	(13)	(13)
CF from financing activiti	(97)	(147)	(240)	(240)
Net Cash flow	17	(173)	135	229
Exchange difference	-	(3)	-	-
Opening Cash	505	558	383	518
Closing cash & Bank	558	383	518	747

Source: Company, ICICI Direct Research

Exhibit 27: Balance Sheet (₹ crore)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	55	56	56	56
Reserve and Surplus	2,124	2,527	2,770	3,108
Total Shareholders funds	2,180	2,583	2,826	3,164
Total Debt	-	-	-	-
Lease liability	100	91	91	91
Provisions	80	49	57	64
Other non current liabilities	-	-	-	-
Total Liabilities	2,360	2,723	2,974	3,319
Assets				
Property, plant and equipment	122	147	161	177
Goodwill	448	457	457	457
Intangibles	11	10	10	10
Right-of-use assets	118	112	83	51
Other non current assets	191	224	256	300
Cash & bank balance	521	383	518	747
Current Investments	577	786	786	786
Trade receivables	518	681	786	881
Unbilled revenue	114	168	193	217
Other financial assets	59	20	23	26
Other current assets	316	395	456	511
Total Current Assets	2,105	2,433	2,763	3,168
Trade payables	132	210	242	271
Lease liability	28	32	32	32
OCL & provisions	474	419	483	541
Total Current Liabilities	634	660	757	844
Net Current Assets	1,471	1,773	2,007	2,324
Application of Funds	2,360	2,723	2,974	3,319

Source: Company, ICICI Direct Research

Exhibit 28: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Diluted EPS	11.6	16.3	16.6	19.9
Cash EPS	14.4	19.3	20.2	24.0
BV	78	92	101	113
DPS	3.5	4.0	8.1	8.1
Cash Per Share	19	14	19	27
Operating Ratios (%)				
EBITDA margin	14.9	15.5	15.0	16.0
PBT Margin	12.8	14.9	13.5	14.5
PAT Margin	9.0	11.2	9.9	10.6
Debtor days	53	60	60	60
Unbilled days	12	15	15	15
Creditor days	14	19	19	19
Return Ratios (%)				
RoE	14.7	17.9	16.6	17.9
RoCE	19.8	23.1	22.1	23.7
RoIC	35.8	36.3	37.0	41.9
Valuation Ratios (x)				
P/E	30.3	21.1	20.8	17.3
EV / EBITDA	16.2	13.5	11.9	9.7
EV / Net Sales	2.4	2.1	1.8	1.5
Market Cap / Sales	2.7	2.4	2.1	1.8
Price to Book Value	4.5	3.8	3.5	3.1
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.6	1.9	1.9	1.9
Quick Ratio	1.6	1.9	1.9	1.9

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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