

Growth to improve in coming quarters...

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 lifescience
- Debt free and healthy double digit return ratio (with RoCE of >19%)

Q1FY22 Results: Birlasoft reported Q1FY22 results.

- Dollar revenues increased 4.1% QoQ to US\$128.4 million
- EBITDA margin declined 90 bps QoQ to 16%
- Deal wins were at US\$153 million (of which net new were US\$94 million)

What should investors do? Birlasoft's share price has grown by ~4x since it demerger (from ~₹ 114 in February 2019 to ~₹ 404 levels in July 2021).

- We continue to remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value Birlasoft at ₹ 475 i.e. 25x P/E on FY23E 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
- Expect dollar revenues to grow at 14.5% CAGR
- Margin expansion of 162 bps to 16.5% in FY21-23E

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 are expected to drive revenues
- BUY with target price of ₹ 2,900



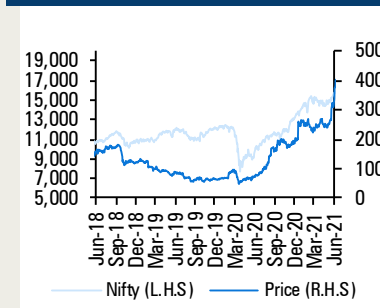
Particulars

Particular	Amount
Market Cap (₹ Crore)	11,175.9
Total Debt	-
Cash and Invest (₹ Crore)	1,098.3
EV (₹ Crore)	10,077.6
52 week H/L	434/114
Equity capital	55.5
Face value	2.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	40.7	40.7	40.7	40.7
FII	22.5	17.5	17.4	17.3
DII	11.7	16.9	17.7	19.6
Public	25.2	24.8	24.2	22.4

Price Chart



Recent event & key risks

- Deal wins were at US\$153 million
- **Key Risk:** (i) Deceleration in deal pipeline, (ii) Inability to sustain cost savings.

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	2,551	3,291	3,556	NA	4,073	4,716	15.2%
EBITDA	306	392	529	NA	656	778	21.3%
EBITDA Margins (%)	12.0	11.9	14.9		16.1	16.5	
Net Profit	272	224	321	NA	443	519	27.2%
EPS (₹)	13.4	8.1	11.6		16.0	18.8	
P/E	34.5	49.8	35.0		25.4	21.7	
RoNW (%)	15.9	11.9	14.7		18.2	19.0	
RoCE (%)	15.5	17.0	19.8		23.6	24.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Earnings Conference Call highlights

- Current quarter revenues were impacted by Covid leaves (impact of US\$1 million). Adjusting for this, growth could have been ~5% QoQ. Going forward, the company expects revenue growth in mid-teens
- The company's focus on top client's area of spend, improving growth in healthcare, improving ERP trajectory, improving annuity revenues (70%), cross sell to clients and focus on niche vertical bode well for long term growth
- In addition, client mining (top 20 accounts up ~18% YoY in FY21), expansion in Europe & APAC, focus on top 30 accounts, healthy order book and reversal of discount prompt us to build in 14.5% CAGR in revenues in FY21-23E
- Margins during the quarter were impacted by Covid leaves and higher sub-contracting cost. Going forward, the company expects to give wage hikes (impact of 1.5-2%). However, we expect these headwinds to be offset by lower sub-contracting cost, higher offshoring and pyramid. Hence, we expect margins to improve in FY22E and FY23E
- Other key highlights: BFSI has remained soft due to concentration in the US and legacy issues. The company is diversifying from the US and developing new solution to drive growth. Three-year deals are more frequent

Financial Summary

Exhibit 1: Profit & loss statement (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	3,291	3,556	4,073	4,716
Growth (%)	29.0	8.0	14.6	15.8
COGS (employee expenses)	1,998	2,116	2,403	2,773
Other expenses	902	911	1,014	1,165
Total Operating Expenditure	2,899	3,027	3,417	3,938
EBITDA	392	529	656	778
Growth (%)	27.9	35.0	23.9	18.6
Depreciation	83	80	81	94
Other income (net)	27	6	32	27
PBT	336	455	606	711
Total Tax	112	134	164	192
PAT	224	321	443	519
Growth (%)	(4.7)	43.0	38.0	17.2
Diluted EPS (₹)	8.1	11.6	16.0	18.8
Growth (%)	(39.8)	44.0	38.0	17.2

Source: Company, ICICI Direct Research,

Exhibit 2: Cash flow statement (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit	224	321	606	711
Add: Depreciation	83	80	81	94
Others	174	5	(32)	(27)
Inc/(dec) in working capital	(88)	84	(83)	(95)
Taxes paid	(80)	(67)	(164)	(192)
CF from operating activities	312	558	409	491
(Inc)/dec in Fixed Assets	(54)	(25)	(69)	(80)
Others	8	(420)	45	40
CF from investing activities	(46)	(444)	(24)	(40)
Dividend paid & dividend tax	(100)	(55)	(194)	(221)
Others	(80)	(41)	(13)	(13)
CF from financing activities	(180)	(97)	(207)	(234)
Net Cash flow	86	17	178	217
Exchange difference	1	-	-	-
Opening Cash	542	1,026	1,043	1,221
Closing cash & Bank	630	1,043	1,221	1,437

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	55	55	55	55
Reserve and Surplus	1,837	2,124	2,374	2,671
Total Shareholders funds	1,892	2,180	2,429	2,727
Total Debt	-	-	-	-
Lease liability	114	100	100	100
Provisions	70	80	92	106
Other non current liabilities	-	-	-	-
Total Liabilities	2,076	2,360	2,621	2,933
Assets				
Property, plant and equipment	141	122	134	148
Goodwill	454	448	448	448
Intangibles	17	11	11	11
Right-of-use assets	139	118	93	65
Other non current assets	248	191	228	265
Cash & bank balance	630	1,043	1,221	1,437
Current Investments	33	55	55	55
Trade receivables	740	518	594	687
Unbilled revenue	74	114	130	151
Other financial assets	36	59	68	79
Other current assets	176	316	362	419
Total Current Assets	1,688	2,105	2,430	2,828
Trade payables	190	132	151	175
Lease liability	31	28	28	28
OCL & provisions	390	474	543	629
Total Current Liabilities	611	634	723	832
Net Current Assets	1,077	1,471	1,707	1,996
Application of Funds	2,076	2,360	2,621	2,933

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Diluted EPS	8.1	11.6	16.0	18.8
Cash EPS	11.1	14.4	18.8	22.1
BV	68	78	87	98
DPS	2.0	3.5	7.0	8.0
Cash Per Share	23	38	44	52
Operating Ratios (%)				
EBITDA margin	11.9	14.9	16.1	16.5
PBT Margin	10.2	12.8	14.9	15.1
PAT Margin	6.8	9.0	10.9	11.0
Debtor days	82	53	53	53
Unbilled days	8	12	12	12
Creditor days	21	14	14	14
Return Ratios (%)				
RoE	11.9	14.7	18.2	19.0
RoCE	17.0	19.8	23.6	24.7
RoC	21.9	35.8	42.9	47.7
Valuation Ratios (x)				
P/E	49.8	35.0	25.4	21.7
EV / EBITDA	26.8	19.0	15.1	12.4
EV / Net Sales	3.2	2.8	2.4	2.1
Market Cap / Sales	3.4	3.1	2.7	2.4
Price to Book Value	5.9	5.2	4.6	4.1
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.7	1.6	1.6	1.6
Quick Ratio	1.7	1.6	1.6	1.6

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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