

Organisation restructuring to focus on growth recovery...

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 >18%)

Q4FY23 Results: Birlasoft reported muted revenue numbers in Q4FY23.

- Revenue grew 0.5% in dollar terms & 3.1% QoQ in CC terms (ex-Invacare)
- Reported EBITDA margin of 13.6% in Q4
- Signed TCV of US\$286 mn during the quarter

What should investors do? Birlasoft's share price has grown by ~2.7x since its demerger (from ~₹ 114 in February 2019 to ~₹ 310 levels in May 2023).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value Birlasoft at ₹ 340 i.e., 15x P/E on FY25E EPS.

Key triggers for future price performance:

- Change in management, organisation restructuring, hiring of new vertical leaders likely to recover revenue growth momentum
- Revenue growth is expected to be achieved via client mining, cross sell, annuity & multi-year deals, expansion in Europe & APAC and focus on niche verticals
- Expect rupee revenues to grow at 8.3% CAGR over FY23-25E
- Expect EBITDA margin to be at 16.1% by FY25E on the back of easing of supply side challenges, higher utilisation, etc

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

- Strong logo additions, increasing annuity revenues & GSI opportunity to aid revenue growth
- BUY with target price of ₹ 660



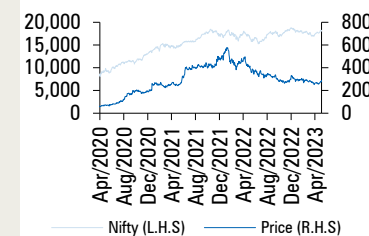
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,375
Total Debt	-
Cash and Invest (₹ Crore)	1,043
EV (₹ Crore)	6,332
52 week H/L	419/ 250
Equity capital	55.0
Face value	2.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	40.3	41.5	41.3	41.1
FII	15.2	13.0	12.4	11.5
DII	21.1	19.9	20.1	21.2
Public	21.4	25.7	26.2	26.2

Price Chart



Recent event & key risks

- Buyback completed at ₹ 500 per share
- Key Risk:** (i) Lower than expected revenue growth (ii) Higher than expected margins

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Key Financial Summary

₹ Crore	FY21	FY22	FY23	4 Year CAGR (FY19-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	3,556	4,130	4,795	17.1%	5,014	5,619	8.3%
EBITDA	529	640	520	14.2%	765	907	32.0%
EBITDA Margins (%)	14.9	15.5	10.9		15.3	16.1	
Net Profit	321	464	332	5.1%	527	634	38.3%
EPS (₹)	11.6	16.3	11.9		18.9	22.8	
P/E	23.1	16.0	22.2		14.0	11.6	
RoNW (%)	14.7	17.9	13.5		18.8	19.4	
RoCE (%)	19.8	23.1	18.0		24.2	25.0	

Key takeaways of recent quarter & conference call highlights

- Revenue grew 0.5% QoQ to US\$149.1 mn and in CC terms ex of Invacare revenue grew 3.1% QoQ. In rupee terms, revenue grew 0.4% QoQ to ₹ 1,226 crore
- Geography wise US (85.3% of mix) grew 2.4% QoQ while Europe and RoW declined 12.2% and 4.6% QoQ, respectively. Vertical wise Manufacturing, BFSI & Energy and utilities (E&U) grew 2.7%, 2.5% and 7.7% QoQ, respectively, while Lifescience vertical declined 11.1% QoQ due to the impact of Invacare and some softness seen in other pharma clients
- The company reported an EBITDA margin of 13.6%, up 20 bps QoQ compared to adjusted EBITDA margin excluding one-time provision for Invacare in Q3. The margin expansion was aided by a decline in attrition & increase in utilisation. In absolute terms, the company reported an EBITDA of ₹ 167 crore for Q4 and PAT of ₹ 112 crore
- For FY23, the company reported a revenue of US\$594.9 mn, up 7.2% while in CC terms it grew 9.1% (ex-Invacare grew 11.5%). For FY23, Birlasoft reported EBITDA margin of 10.9% while ex-Invacare, margins were at 14% down 150 bps. The company reported PAT of ₹ 331.6 crore with corresponding PAT margin of 6.9%
- The company mentioned that revenue growth in FY23 was impacted due to Invacare bankruptcy (~US\$18 mn impact) and certain client run off due to which growth was much below than guidance given by the previous management. The new CEO mentioned that it did organisation revamp since his joining in December 2022. The new organisation structure is now almost operational from Apr 2023. He mentioned that the change is focused on growth recovery, which has been lacking for a few quarters for now. The company also mentioned that special focus is being given to its largest market i.e. US from where it generates 85% of its revenues. The company has appointed four separate leaders for growth of verticals of BFSI, Manufacturing, Energy & Utilities and Lifesciences in the region. The company mentioned that these four leaders will report to North America head and would be responsible for P&L of these verticals in the region
- The company also mentioned that it has brought all ERP related offerings under one leader as this service line was lagging growth and they are looking at revamp here. Birlasoft mentioned that other changes include appointment of India region COO and Chief Growth Officer at the company level. The company mentioned that 90% of the organisation revamp is complete and rest 10% will be completed in Q1FY24 where they will be welcoming few more leaders. It is likely to be completed by the end of June 2022. The company also indicated that they are also looking for cultural transformation with client focus in mind but mentioned that cultural change may happen gradually
- The company mentioned that it is not giving any specific revenue guidance for FY24 as the macro situation is still uncertain. Birlasoft also mentioned that its pipeline is strong and continuously growing as on date but mentioned that deal signing is getting delayed as clients are reprioritising their spend towards more cost take out deals and cloud transformation is largely in the backseat now. Birlasoft mentioned that it is confident of sequential growth in all quarters of FY24 but indicated that the growth rate will be difficult to quantify at this moment. The company mentioned that it is going through structural change wherein more of project based legacy work is being shifted to more stable annuity work, which is giving it confidence on growth on a sequential basis ahead. Birlasoft mentioned that its pipeline is also following similar trend i.e. more annuity work

- The company mentioned that it is expecting muted growth in the near term from the healthcare vertical despite the Invacare issue being behind now. Birlasoft mentioned that its muted growth expectations are based on client consolidation and some layoffs in some pharma majors globally. In manufacturing, the company mentioned that growth in FY23 was muted, which was a reflection of weak ERP service line growth. The company mentioned that since they brought all ERP under one roof and also seeing some green shoots in this space, it will likely bring in growth in manufacturing vertical. The company also mentioned that growth in ERP for them is broad based across SAP, Oracle, etc. In the BFSI space, the company mentioned that it does not have exposure to regional banks in the US and the BFSI vertical is expected to continue its growth momentum, going ahead, as demand is strong especially in lending and payments sub-verticals. The company mentioned that their BFSI mix is not large like its large peers but client spendings in this vertical are most skewed towards cost optimisation programs
- The company's active clients declined by 11 on QoQ basis to 288. Birlasoft mentioned that client decline QoQ should be seen as client rationalisation drive, which it has been talking about. The company mentioned that client rationalisation is likely to continue for a couple more quarters as it is looking to cut the tail. Birlasoft mentioned that it is looking to exit FY24 at around 16% EBITDA margins on account of i) revenue recovery ii) Absence of Invacare related costs (they will be out of Invacare deal on June 1, so two months costs will be there for Q1FY24 iii) moderation of attrition. The company is also targeting 15-16% EBITDA margins for FY24 from 14% in FY23 (ex-Invacare impact) on pyramid optimisation, operational efficiency and some pricing is also built as well as wage hike impact (in Q2) is also taken in consideration for that margin range
- On the M&A front, the company mentioned that it is currently focused on the organisation restructuring and implementing it efficiently. Hence, it mentioned that it is not a conducive time for M&A now
- The company during the quarter won TCV of US\$286 mn, up 23.8% QoQ with net new TCV win of US\$114 mn. Birlasoft added that it won a large deal in Q4 from a client with US\$50 mn+ revenue with new TCV signing in the deal of 40%. The company also mentioned that its deal pipeline is broad based and remains robust. However, it cautioned that deal closure is taking longer
- Revenue from its Top five, 10, 20 clients grew 4%, 2.1% & 0.2% QoQ, respectively. The company mentioned that it has not witnessed any impact of macros on the top clients other than the one that it has already disclosed till now
- The company's LTM attrition declined 340 bps QoQ & 730 bps YoY to 22.1%. Birlasoft also added that its utilisation improved 80 bps QoQ to 84.8%
- The company's net headcount during the quarter declined by 337 to 12,193
- The company declared final dividend of ₹ 2 per share during the quarter taking the total dividend for FY23 to ₹ 3.5 per share

Exhibit 1: P&L

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	1,226	1,101	11.3	1,222	0.4	Revenue grew by 0.5 % in dollar terms and 3.1% QoQ in CC terms (ex. On Invacare comparison). Revenue growth aided by billing of deals won in Q3FY23
Employee expense	729	630	15.8	732	-0.3	
Gross Margin	497	472	5.3	490	1.4	
Gross margin (%)	40.5	42.8	-231 bps	40.1	43 bps	
Other expense	330	297	11.0	483	-31.6	
EBITDA	167.0	174.5	-4.3	7.4	2,168.8	
EBITDA Margin (%)	13.6	15.8	-223 bps	0.6	1301 bps	EBITDA margins improved by 20bps QoQ compared to adjusted EBITDA margin in Q3 aided by decline in attrition & increase in utilization
Depreciation & amortisation	21	20	5.0	21	-0.2	
EBIT	146	155	-5.5	-14	-1,170.7	
EBIT Margin (%)	11.9	14.0	-213 bps	-1.1	1302 bps	
Other income (less interest)	-6	19	-133.0	7	-192.3	Other income loss due to forex loss & lower interest gains as cash was utilized for buyback
PBT	140	174	-19.5	-7	-2,145.4	
Tax paid	28	41	-32.3	10	189.1	
PAT	112	133	-15.6	-16	-785.6	

Source: Company, ICICI Direct Research

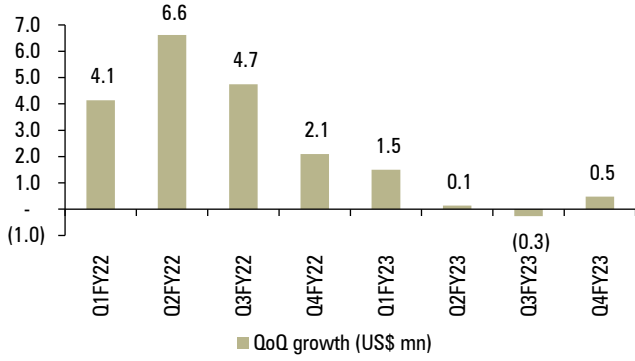
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,084	5,014	-1.4	5,516	5,619	1.9	
EBITDA	756	765	1.2	834	907	8.7	
EBITDA Margin (%)	14.9	15.3	38 bps	15.1	16.1	102 bps	Numbers re-aligned on management guidance
PAT	499	521	4.3	554	628	13.3	
EPS (₹)	17.7	19	4.3	20	23	13.3	

Source: Company, ICICI Direct Research

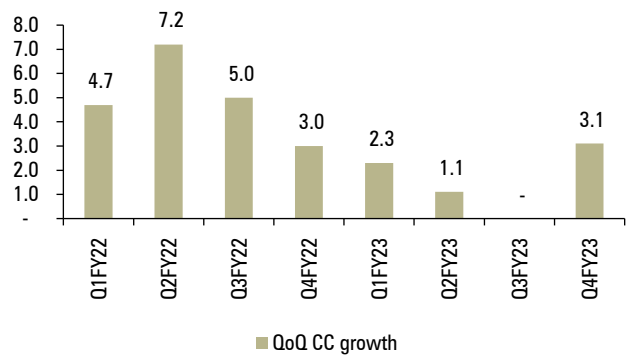
Key Metrics

Exhibit 3: Dollar revenue trend QoQ



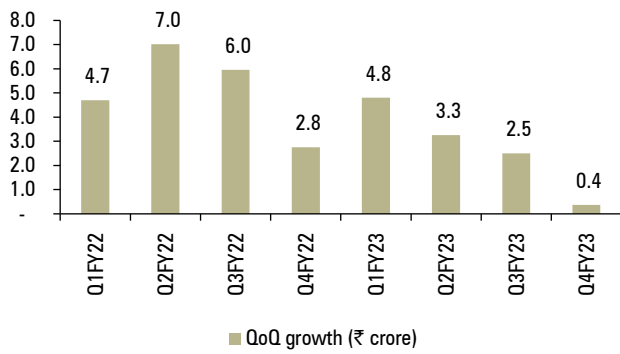
Source: Company, ICICI Direct Research

Exhibit 4: Ex. Invacare revenue grows 3.1% in Q4



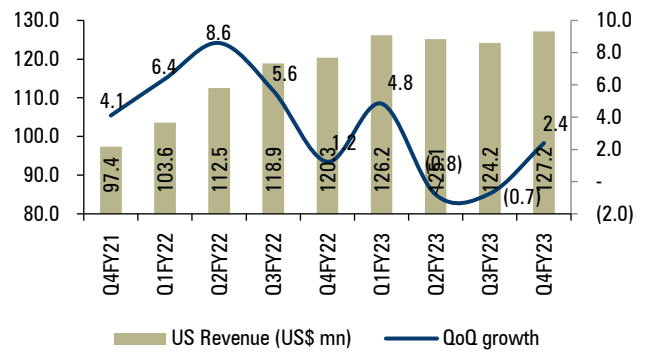
Source: Company, ICICI Direct Research

Exhibit 5: Rupee revenue QoQ growth



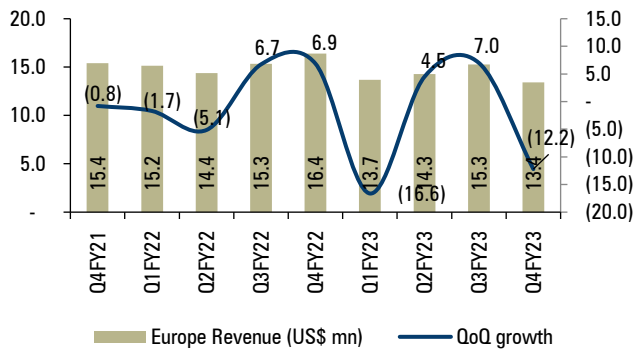
Source: Company, ICICI Direct Research

Exhibit 6: US revenue rebound on the back deals won in Q3



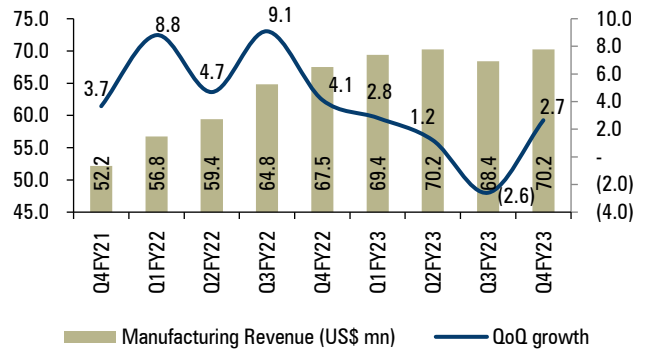
Source: Company, ICICI Direct Research

Exhibit 7: Europe revenue declines in Q4



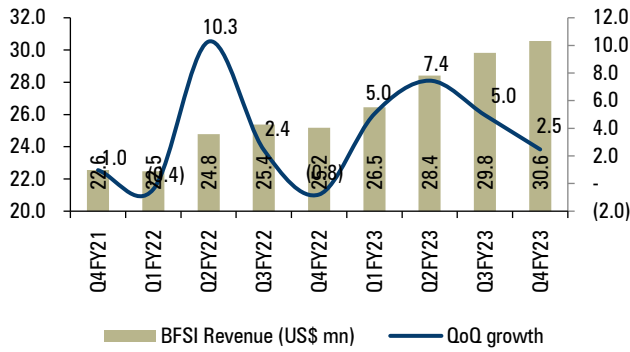
Source: Company, ICICI Direct Research

Exhibit 8: Manufacturing recovers in Q4



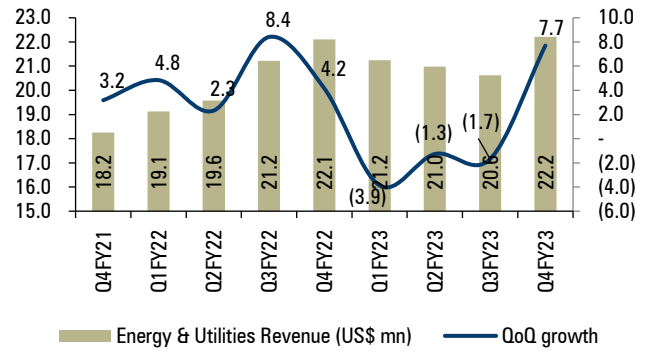
Source: Company, ICICI Direct Research

Exhibit 9: BFSI continues sustained growth



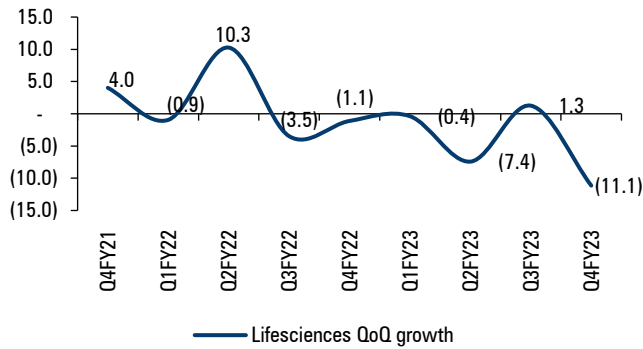
Source: Company, ICICI Direct Research

Exhibit 10: E&U grow 7.7% in Q4



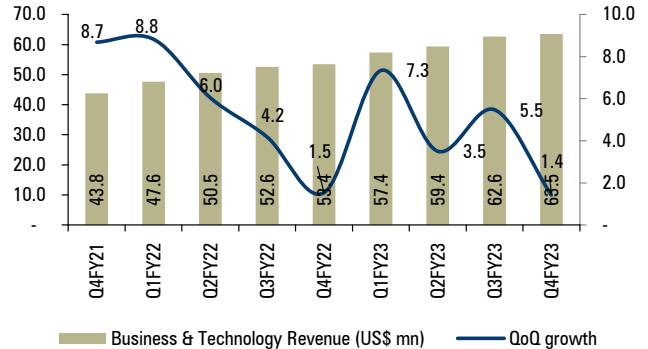
Source: Company, ICICI Direct Research

Exhibit 11: Lifesciences impacted by Invacare & client issues



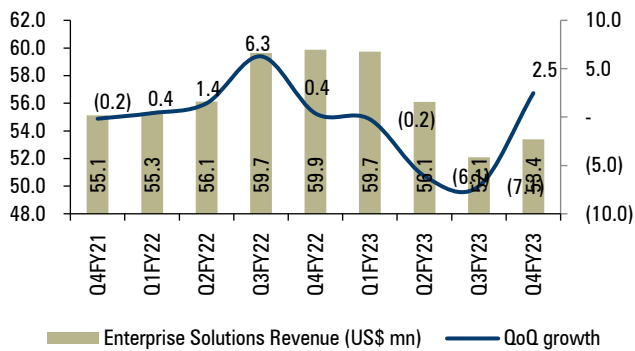
Source: Company, ICICI Direct Research

Exhibit 12: Business & tech revenue QoQ growth



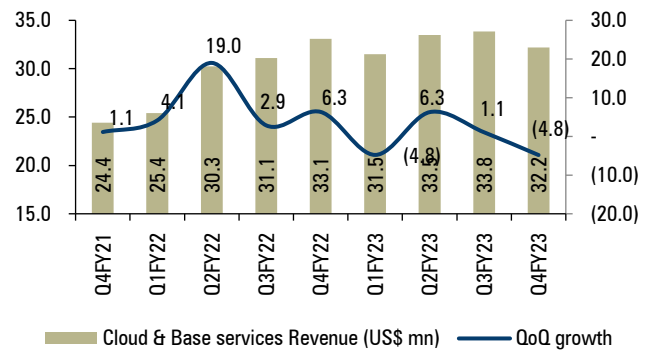
Source: Company, ICICI Direct Research

Exhibit 13: Enterprise solutions continues to decline



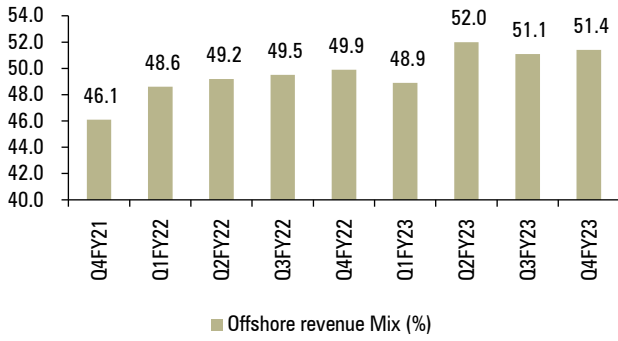
Source: Company, ICICI Direct Research

Exhibit 14: Cloud & Base services revenue QoQ growth



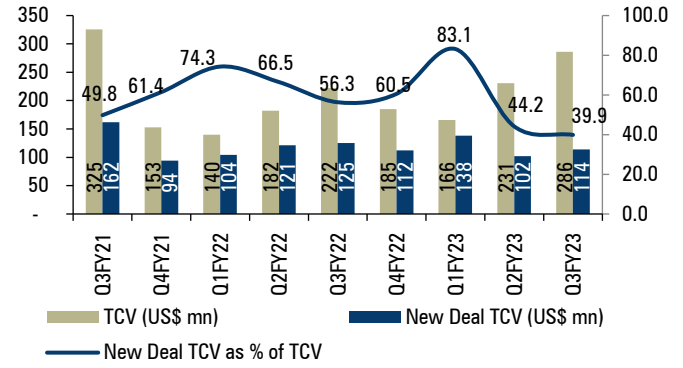
Source: Company, ICICI Direct Research

Exhibit 15: Offshore mix improving



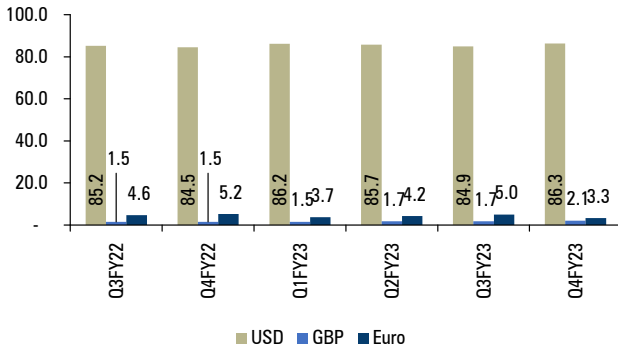
Source: Company, ICICI Direct Research

Exhibit 16: TCV wins remains strong



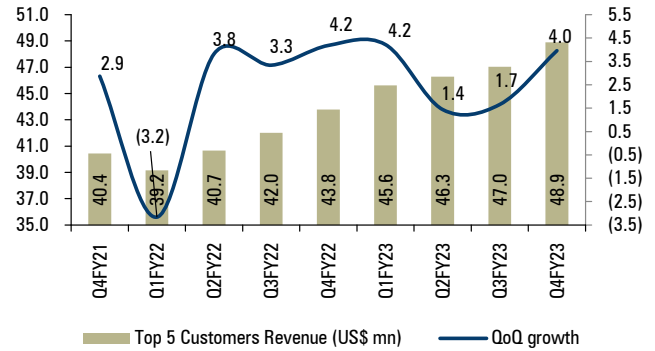
Source: Company, ICICI Direct Research

Exhibit 17: Currency mix of revenue (%)



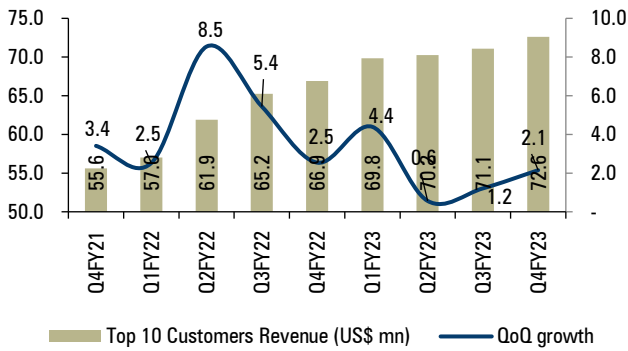
Source: Company, ICICI Direct Research

Exhibit 18: Top five customer's revenue QoQ growth



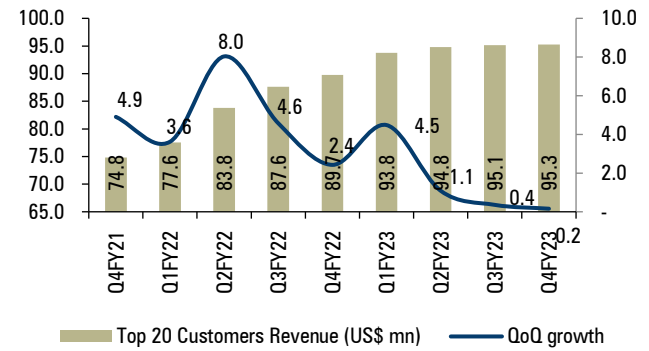
Source: Company, ICICI Direct Research

Exhibit 19: Top 10 customer's revenue QoQ growth



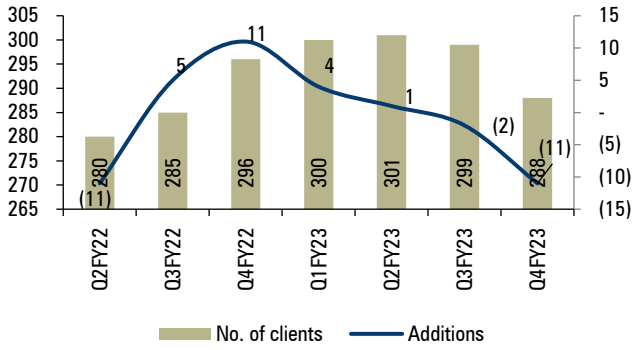
Source: Company, ICICI Direct Research

Exhibit 20: Top 20 customer's revenue QoQ growth



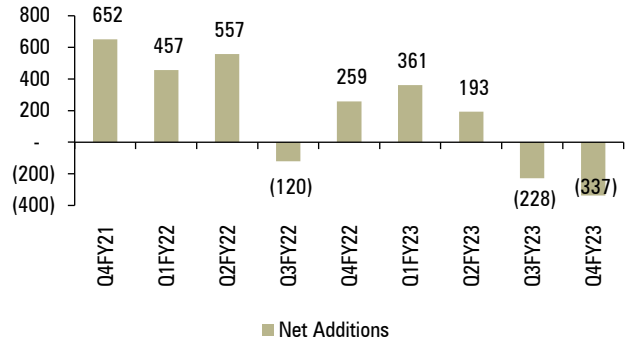
Source: Company, ICICI Direct Research

Exhibit 21: Client rationalisation continues



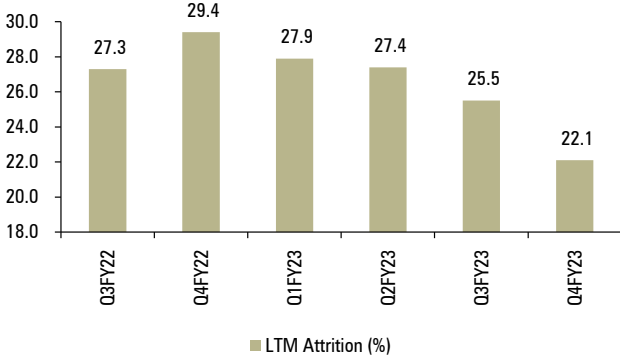
Source: Company, ICICI Direct Research

Exhibit 22: Net headcount additions trend



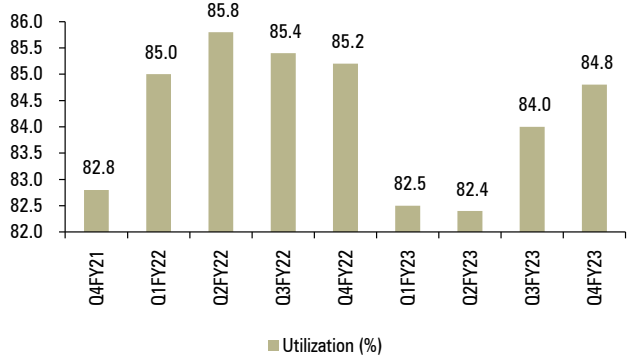
Source: Company, ICICI Direct Research

Exhibit 23: LTM attrition declines by 730 bps YoY



Source: Company, ICICI Direct Research

Exhibit 24: Utilisation improves by 80 bps in Q4



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 25: Profit & loss statement (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	4,130	4,795	5,014	5,619
Growth (%)	16.2	16.1	4.6	12.1
COGS (employee expenses)	2,369	2,813	2,920	3,223
Other expenses	1,121	1,461	1,329	1,489
Total Operating Expenditure	3,490	4,274	4,249	4,712
EBITDA	640	520	765	907
Growth (%)	21.0	(18.7)	47.0	18.5
Depreciation	77	82	80	80
Other income (net)	53	4	8	8
PBT	617	442	693	835
Total Tax	153	111	166	200
PAT	464	332	527	634
Growth (%)	44.5	(28.5)	58.8	20.5
Diluted EPS (₹)	16.3	11.9	18.9	22.8
Growth (%)	40.7	(27.0)	58.8	20.5

Source: Company, ICICI Direct Research,

Exhibit 26: Cash flow statement (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E
Profit before Tax	464	332	685	827
Add: Depreciation	77	82	88	88
Others	22	248	(8)	(8)
Inc/(dec) in working capital	(256)	(80)	(108)	(127)
Taxes paid	(178)	(131)	(164)	(198)
CF from operating activities	281	561	493	582
(Inc)/dec in Fixed Assets	(64)	(58)	(60)	(67)
Others	(243)	309	24	24
CF from investing activities	(307)	252	(36)	(43)
Dividend paid & dividend tax	(111)	(125)	(167)	(167)
Others	(36)	(511)	(16)	(16)
CF from financing activities	(147)	(636)	(183)	(183)
Net Cash flow	(173)	176	274	355
Exchange difference	(3)	(0)	-	-
Opening Cash	558	383	554	827
Closing cash & Bank	383	554	827	1,183

Source: Company, ICICI Direct Research

Exhibit 27: Balance Sheet (₹ crore)

(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	56	55	55	55
Reserve and Surplus	2,527	2,393	2,753	3,220
Total Shareholders funds	2,583	2,448	2,808	3,275
Total Debt	-	-	-	-
Lease liability	91	66	66	66
Provisions	49	49	51	57
Other non current liabilities	-	-	-	-
Total Liabilities	2,723	2,563	2,925	3,399
Assets				
Property, plant and equipment	147	142	146	158
Goodwill	457	490	490	490
Intangibles	10	14	14	14
Right-of-use assets	112	90	66	42
Other non current assets	224	282	370	435
Cash & bank balance	383	553	823	1,176
Current Investments	786	489	489	489
Trade receivables	681	732	765	857
Unbilled revenue	168	176	184	206
Other financial assets	20	6	6	7
Other current assets	395	214	224	251
Total Current Assets	2,433	2,170	2,490	2,986
Trade payables	210	231	242	271
Lease liability	32	36	36	36
OCL & provisions	419	357	373	418
Total Current Liabilities	660	624	651	725
Net Current Assets	1,773	1,546	1,839	2,261
Application of Funds	2,723	2,563	2,925	3,399

Source: Company, ICICI Direct Research

Exhibit 28: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Diluted EPS	16.3	11.9	18.9	22.8
Cash EPS	19.3	14.9	21.9	25.8
BV	92	88	101	118
DPS	4.0	4.5	6.0	6.0
Cash Per Share	14	20	30	42
Operating Ratios (%)				
EBITDA margin	15.5	10.9	15.3	16.1
PBT Margin	14.9	9.2	13.8	14.9
PAT Margin	11.2	6.9	10.5	11.3
Debtor days	60	56	56	56
Unbilled days	15	13	13	13
Creditor days	19	18	18	18
Return Ratios (%)				
RoE	17.9	13.5	18.8	19.4
RoCE	23.1	18.0	24.2	25.0
RoIC	36.3	28.9	42.6	47.9
Valuation Ratios (x)				
P/E	16.0	22.2	14.0	11.6
EV / EBITDA	9.7	12.2	7.9	6.3
EV / Net Sales	1.5	1.3	1.2	1.0
Market Cap / Sales	1.8	1.5	1.5	1.3
Price to Book Value	2.9	3.0	2.6	2.3
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.9	1.8	1.8	1.8
Quick Ratio	1.9	1.8	1.8	1.8

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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