

Revenue guidance downgraded from 15% to lower end of double digit in FY23...

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%)

Q2FY23 Results: Birlasoft reported muted numbers for Q2FY23.

- Revenue was up 1.1% QoQ in CC terms
- EBITDA margins improved marginally by ~10 bps QoQ to 14.8%
- Signed TCV of US\$166 mn during the quarter

What should investors do? Birlasoft's share price has grown by ~2.4x since it demerger (from ~₹ 114 in February 2019 to ~₹ 280 levels in October 2022).

- We change our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value Birlasoft at ₹ 310 i.e. 15x P/E on FY25E 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 11.1% CAGR over FY22-25E
- Margin expansion of 20 bps to 15.7% over FY22-25E

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 at 16.2% CAGR in FY22-25E
- BUY with target price of ₹ 445



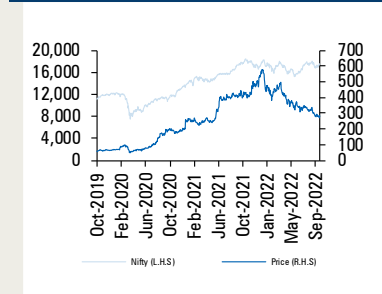
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,746
Total Debt	-
Cash and Invest (₹ Crore)	1,169
EV (₹ Crore)	6,577
52 week H/L	585/ 269
Equity capital	54.4
Face value	2.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	40.6	40.4	40.3	41.5
FII	17.4	15.4	15.2	13.0
DII	21.4	22.7	21.1	19.9
Public	20.7	21.4	21.4	25.7

Price Chart



Recent event & key risks

- Completed buyback of 78 lakh shares at ₹ 500/share
- Key Risk:** (i) Higher than expected revenue growth (ii) Lower than expected attrition

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Key Financial Summary

₹ Crore	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Net Sales	3,556	4,130	17.4%	4,719	5,144	5,659	11.1%
EBITDA	529	640	27.8%	708	798	891	11.7%
EBITDA Margins (%)	14.9	15.5		15.0	15.5	15.7	
Net Profit	321	464	19.5%	467	527	587	8.2%
EPS (₹)	11.6	16.3		16.6	18.7	20.8	
P/E	24.3	16.9		16.3	14.5	13.0	
RoNW (%)	14.7	17.9		19.8	19.8	19.5	
RoCE (%)	19.8	23.1		26.1	26.2	25.7	

Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter grew by 1.1% QoQ in CC terms while in dollar terms the company reported revenue of US\$148.8 mn, reporting flat growth of 0.1% QoQ. In rupee terms, the company reported revenue growth of 3.3% QoQ to ₹ 1,192.1 crore
- The company indicated that revenue growth for the quarter was lower than their expectation. In Q1, revenue growth was lower on account of a couple of engagements not starting due to client specific issues. One of this started in Q2. However, the second is yet to start and Birlasoft is hopeful of starting the same in Q3. The company is also facing the issue of high attrition (albeit moderated in the last couple of quarters but continues to be high), which also impacting execution. The company had earlier given 15% US\$ revenue guidance for FY23 but now it is guiding double digit growth. Birlasoft did see normal furlough impact in Q3. The company also mentioned that if the issues that it faced in Q1, Q2 continue and if attrition does not come down materially then it may end up at the lower end of double digit growth (closer to 10%). If it is able to cover ground lost so far in H1, in H2, then growth would be higher
- Geography wise, US (84.1% mix) declined 0.8% QoQ while Europe reported growth of 4.5% QoQ on a favourable base (was down 16.6% QoQ in Q1). Vertical wise revenue from manufacturing & BFSI grew 1.2% & 7.4% QoQ, respectively, while energy & utilities and lifesciences continued to be stressed reporting a decline of 1.3% & 7.4% QoQ, respectively
- The company mentioned that BFS has been strong due to ramp up of deals as the sector now forms its feet in the cloud transformation. However, lifesciences continue to see a decline in the revenue due to i) rationalising some part of revenues, ii) some projects finished and new projects are yet to ramp up, iii) some client related furloughs impacting growth. The company, however, expects a recovery in the lifesciences vertical revenue, going forward. Birlasoft also indicated that revenues in other sectors such as Hi-tech and Manufacturing have been steady
- EBITDA margin improved marginally by 10 bps QoQ to 14.8%. The company indicated that the tailwinds for margin improvement like decline in travel cost, increase in offshore mix and operational efficiency were mitigated by the headwinds of high hiring cost & wage hike implementation
- The company maintained EBITDA margin guidance of 15%. Birlasoft indicated that margin in Q2 was impacted by wage hike (covering 65-70% employees) while there would be a spillover of 100 bps impact in Q3 to cover wage hike for the rest of the employees. The company also mentioned that for some projects (including one large client, where delivery has been shifted on offshore from onsite due to compliance requirement), it is shifting onsite to offshore delivery model to improve margins by savings on higher subcontractor cost
- The company, for the quarter, reported TCV of US\$166 mn, down 10.3% QoQ including new deal wins of US\$ 138 mn, up 23.2% QoQ. The new deal wins TCV were its highest since Q1FY22
- Birlasoft LTM attrition declined 50 bps QoQ to 27.4% QoQ. This was the second successive month of moderation in attrition. The company indicated that it expects attrition to moderate further in H2, which will support in its margin improvement endeavour. Birlasoft also indicated that its attrition in Q3 will be lower than Q2
- The company, during the quarter, hired 193 net new employees taking the total headcount to 12,758. Birlasoft indicated that it had hired 250 freshers in Q2 taking the total fresher hiring for H1FY23 to 500

- The company sees a strong demand environment as clients continue to see spend on revenue maximisation as well as cost optimisation program. However, decision making is on the slower side where clients are taking more than expected time to decide on spend. Some clients also wish to have more spread out deal execution vs. earlier normal duration of two to three years to mitigate impact on their cash outflow
- The company continues with its aspiration to reach US\$1 bn revenue but indicated that target year i.e. FY25 could be shifted forward. Birlasoft also reiterated that aspirational revenue target does include inorganic opportunities. The company indicated that they are actively looking for M&A but nothing worth mentioning as of now
- On pricing, the company mentioned that it has just finished negotiations with one of its existing large clients some time back and was able to secure a price hike. Birlasoft also indicated that in some cases they are also getting push back as far as pricing is concerned so the environment on pricing is very dynamic right now. The company, however, is getting new projects at higher prices
- During the quarter the company completed the buyback of 78,00,000 shares for ₹ 500 each it had earlier announced
- Birlasoft declared an interim dividend of ₹ 1.5 per share & fixed November 2, as the record date for determining eligible shareholders

Exhibit 1: P&L

	Q2FY23	Q2FY22	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	1,192	1,012	17.8	1,154	3.3	Revenue growth impacted due to client specific issues and high attriton
Employee expense	694	576	20.4	658	5.5	
Gross Margin	498	435	14.5	497	0.3	
Gross margin (%)	41.8	43.0	-123 bps	43.0	-122 bps	
Other expense	322	283	13.6	327	-1.5	
EBITDA	176.4	151.8	16.2	169.8	3.9	
EBITDA Margin (%)	14.8	15.0	-21 bps	14.7	9 bps	Margin steady despite wage hike & supply side challenges due to the tailwinds of decline in travel expenses, increase in off shore mix & operational efficiency
Depreciation & amortisation	21	19	6.8	20	5.2	
EBIT	156	132	17.6	150	3.7	
EBIT Margin (%)	13.1	13.1	-3 bps	13.0	5 bps	
Other income (less interest)	-3	9	-129.1	15	-117.6	
PBT	153	142	7.9	166	-7.6	
Tax paid	32	35	-8.5	42	-22.9	
PAT	121	107	13.3	124	-2.5	

Source: Company, ICICI Direct Research

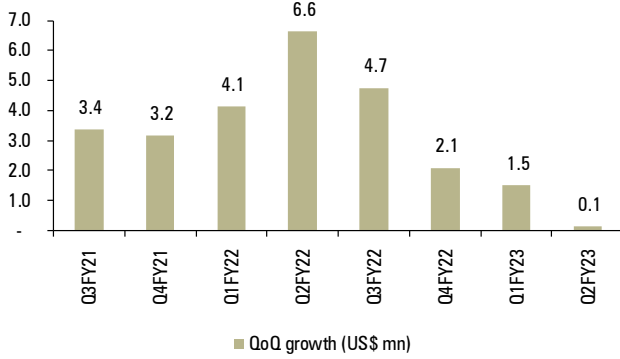
Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	4,767	4,719	-1.0	5,339	5,144	-3.7	5,659	We re-align numbers on weak H1 performance
EBITDA	713	708	-0.7	854	798	-6.6	891	
EBITDA Margin (%)	15.0	15.0	4 bps	16.0	15.5	-49 bps	15.7	
PAT	470	467	-0.6	565	527	-6.8	587	
EPS (₹)	17	17	-0.6	19.9	19	-6.8	21	

Source: Company, ICICI Direct Research

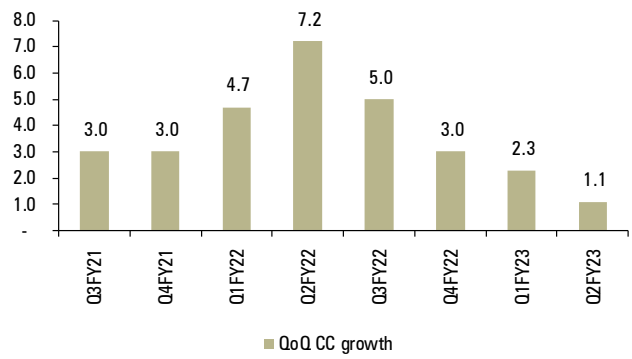
Key Metrics

Exhibit 3: Dollar revenue trend QoQ



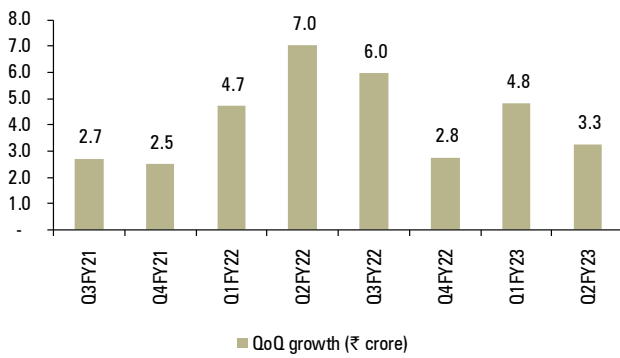
Source: Company, ICICI Direct Research

Exhibit 4: CC growth weaker



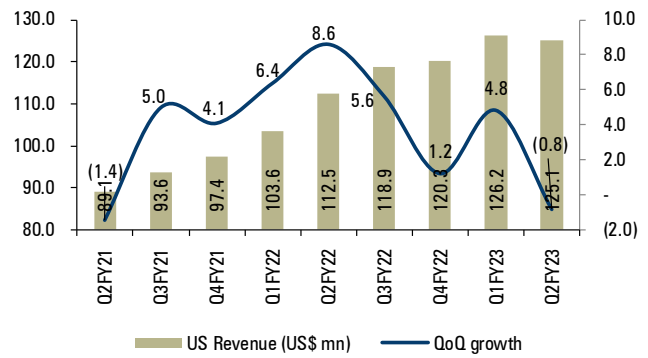
Source: Company, ICICI Direct Research

Exhibit 5: Rupee revenue QoQ growth



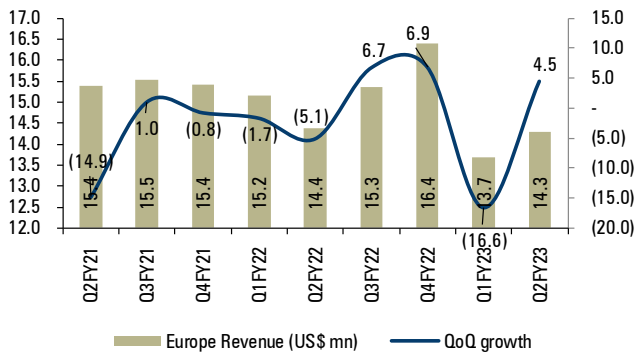
Source: Company, ICICI Direct Research

Exhibit 6: US region revenue sees moderation



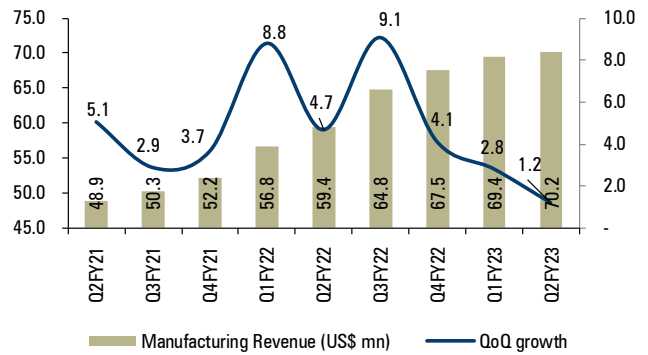
Source: Company, ICICI Direct Research

Exhibit 7: Europe revenue grows on favourable base in Q2



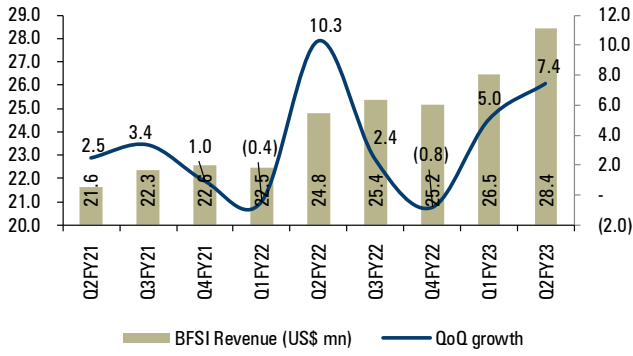
Source: Company, ICICI Direct Research

Exhibit 8: Manufacturing revenue also declining



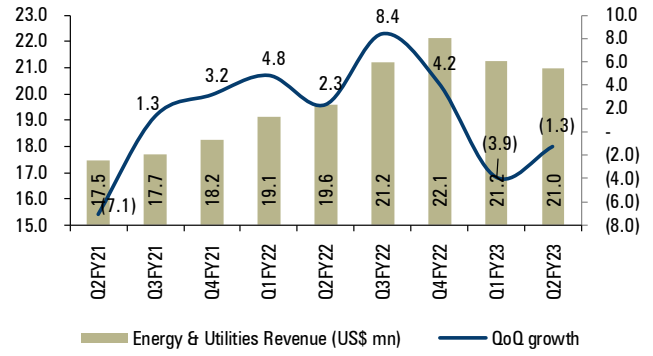
Source: Company, ICICI Direct Research

Exhibit 9: While BFSI growth continues on strong



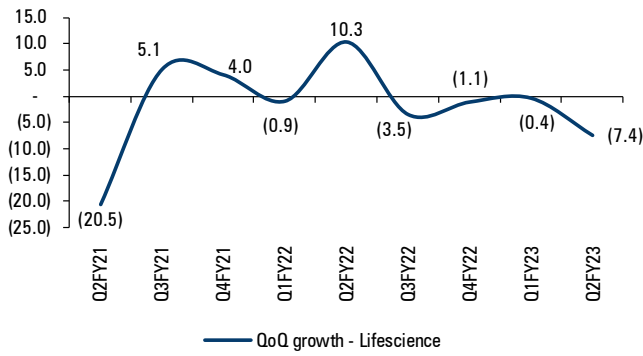
Source: Company, ICICI Direct Research

Exhibit 10: Energy & utilities revenue down QoQ



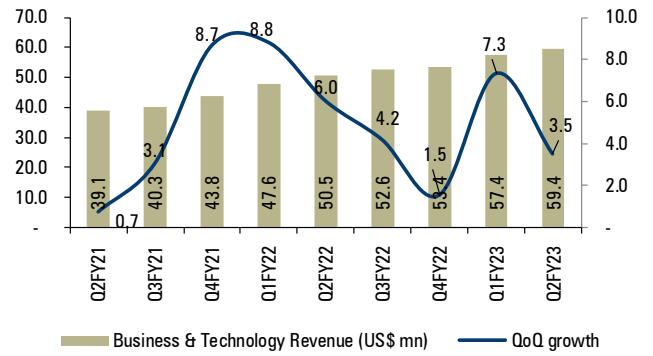
Source: Company, ICICI Direct Research

Exhibit 11: Rationalisation impacts Lifecycle



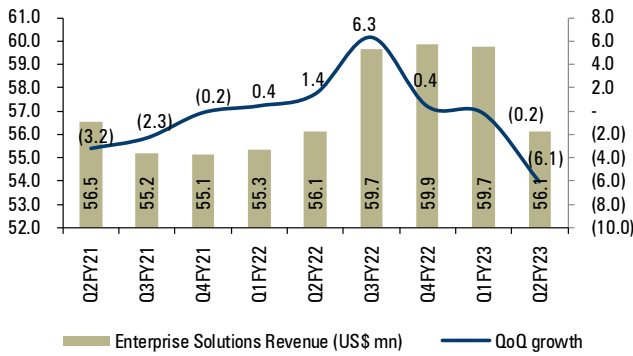
Source: Company, ICICI Direct Research

Exhibit 12: Business & Tech revenue QoQ growth



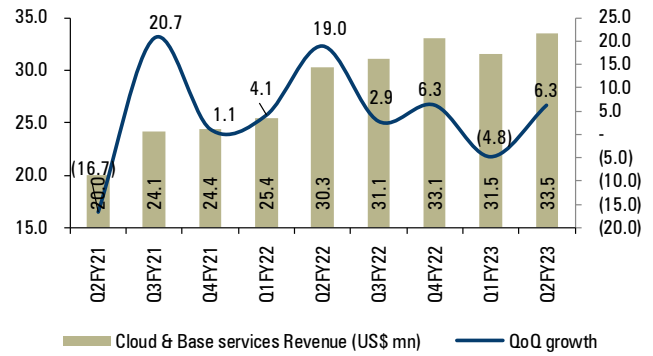
Source: Company, ICICI Direct Research

Exhibit 13: Enterprise solutions revenue QoQ growth



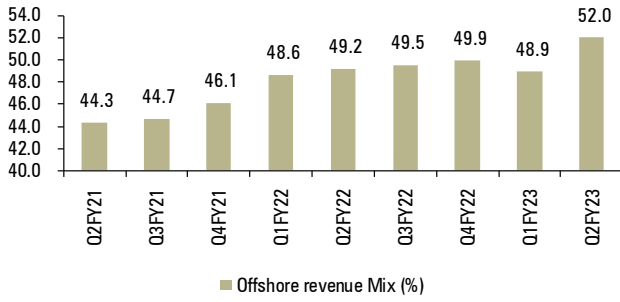
Source: Company, ICICI Direct Research

Exhibit 14: Cloud & Base services revenue QoQ growth



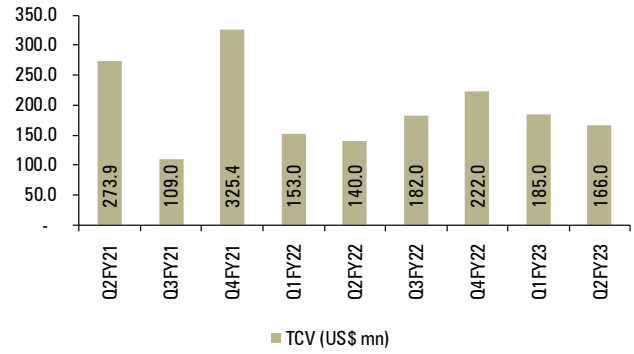
Source: Company, ICICI Direct Research

Exhibit 15: Offshore mix improving



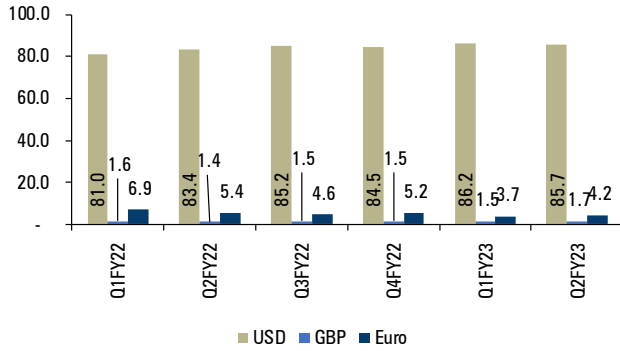
Source: Company, ICICI Direct Research

Exhibit 16: TCV trend steady



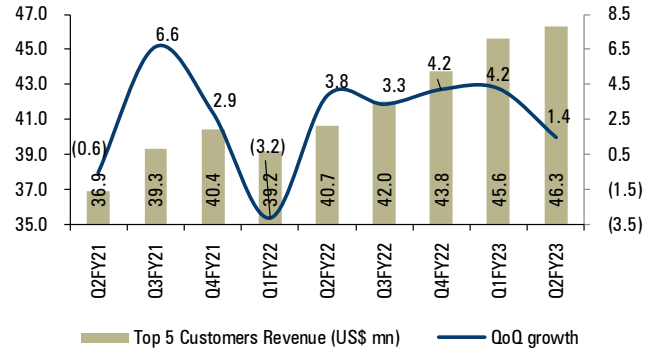
Source: Company, ICICI Direct Research

Exhibit 17: Currency mix of revenue (%)



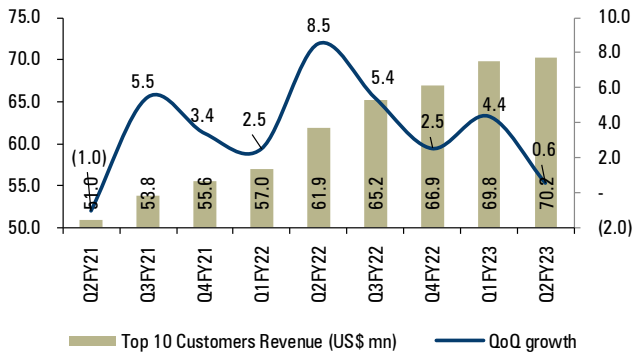
Source: Company, ICICI Direct Research

Exhibit 18: Top five customer's revenue QoQ growth



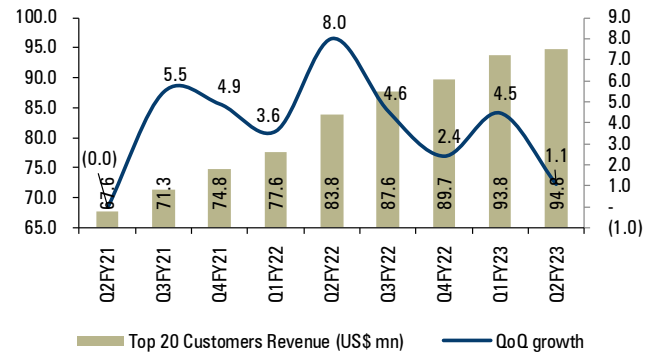
Source: Company, ICICI Direct Research

Exhibit 19: Top 10 customer's revenue QoQ growth



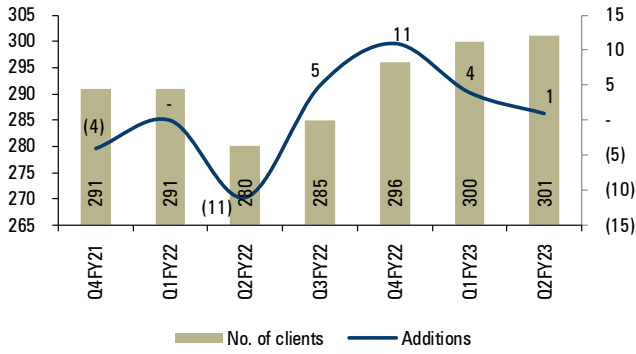
Source: Company, ICICI Direct Research

Exhibit 20: Top 20 customer's revenue QoQ growth



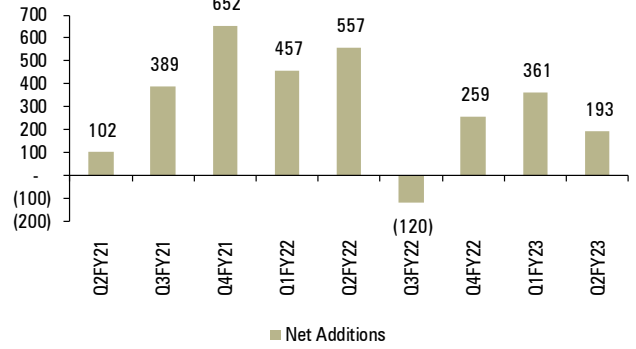
Source: Company, ICICI Direct Research

Exhibit 21: Number of clients additions trend



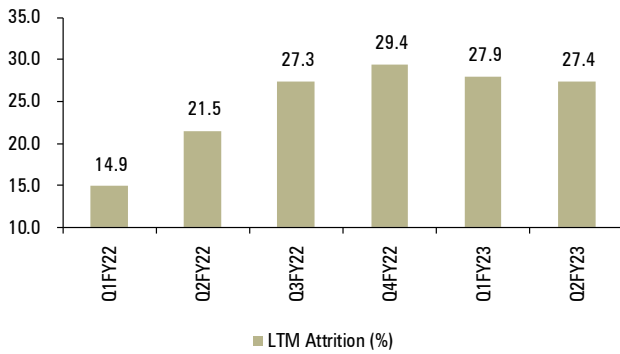
Source: Company, ICICI Direct Research

Exhibit 22: Net additions trend



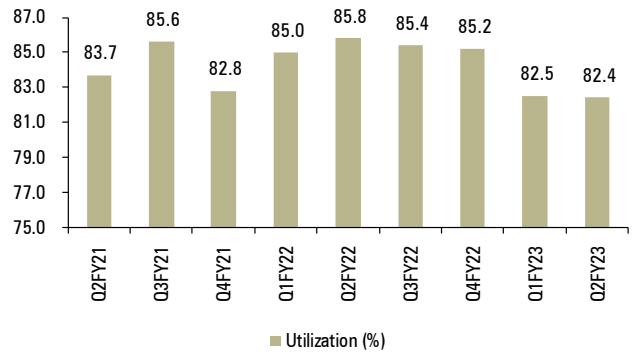
Source: Company, ICICI Direct Research

Exhibit 23: LTM attrition still elevated



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)	FY22	FY23E	FY24E	FY25E
Total operating Income	4,130	4,719	5,144	5,659
Growth (%)	16.2	14.3	9.0	10.0
COGS (employee expenses)	2,369	2,761	2,972	3,250
Other expenses	1,121	1,287	1,394	1,532
Total Operating Expenditure	3,490	4,048	4,367	4,782
EBITDA	640	708	798	891
Growth (%)	21.0	10.5	12.7	11.7
Depreciation	77	94	103	113
Other income (net)	53	27	27	27
PBT	617	640	722	805
Total Tax	153	173	195	217
PAT	464	467	527	587
Growth (%)	44.5	0.8	12.8	11.5
Diluted EPS (₹)	16.3	16.6	18.7	20.8
Growth (%)	40.7	1.5	12.8	11.5

Source: Company, ICICI Direct Research,

Exhibit 26: Cash flow statement (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit	464	640	722	805
Add: Depreciation	77	94	103	113
Others	22	(27)	(27)	(27)
Inc/(dec) in working capital	(256)	(114)	(89)	(104)
Taxes paid	(178)	(173)	(195)	(217)
CF from operating activities	281	421	514	570
(Inc)/dec in Fixed Assets	(64)	(80)	(87)	(96)
Others	(243)	511	40	40
CF from investing activities	(307)	431	(48)	(56)
Dividend paid & dividend tax	(111)	(226)	(226)	(226)
Others	(36)	(482)	(13)	(13)
CF from financing activities	(147)	(707)	(239)	(239)
Net Cash flow	(173)	145	228	275
Exchange difference	(3)	-	-	-
Opening Cash	558	383	527	755
Closing cash & Bank	383	527	755	1,030

Source: Company, ICICI Direct Research

Exhibit 27: Balance Sheet (₹ crore)

(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	56	54	54	54
Reserve and Surplus	2,527	2,301	2,603	2,965
Total Shareholders funds	2,583	2,356	2,657	3,019
Total Debt	-	-	-	-
Lease liability	91	91	91	91
Provisions	49	56	61	67
Other non current liabilities	-	-	-	-
Total Liabilities	2,723	2,503	2,810	3,178
Assets				
Property, plant and equipment	147	161	176	146
Goodwill	457	457	457	457
Intangibles	10	10	10	10
Right-of-use assets	112	83	52	18
Other non current assets	224	254	283	314
Cash & bank balance	383	527	755	1,030
Current Investments	786	315	315	315
Trade receivables	681	778	848	933
Unbilled revenue	168	192	209	230
Other financial assets	20	23	25	28
Other current assets	395	452	492	542
Total Current Assets	2,433	2,287	2,645	3,077
Trade payables	210	239	261	287
Lease liability	32	32	32	32
OCL & provisions	419	478	521	574
Total Current Liabilities	660	749	814	892
Net Current Assets	1,773	1,538	1,831	2,185
Application of Funds	2,723	2,503	2,810	3,178

Source: Company, ICICI Direct Research

Exhibit 28: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Diluted EPS	16.3	16.6	18.7	20.8
Cash EPS	19.3	20.6	23.1	25.7
BV	92	87	98	111
DPS	4.0	8.3	8.3	8.3
Cash Per Share	14	19	28	38
Operating Ratios (%)				
EBITDA margin	15.5	15.0	15.5	15.7
PBT Margin	14.9	13.6	14.0	14.2
PAT Margin	11.2	9.9	10.2	10.4
Debtor days	60	60	60	60
Unbilled days	15	15	15	15
Creditor days	19	19	19	19
Return Ratios (%)				
RoE	17.9	19.8	19.8	19.5
RoCE	23.1	26.1	26.2	25.7
RoIC	36.3	37.0	40.0	43.6
Valuation Ratios (x)				
P/E	16.9	16.3	14.5	13.0
EV / EBITDA	10.4	9.9	8.5	7.3
EV / Net Sales	1.6	1.5	1.3	1.1
Market Cap / Sales	1.9	1.7	1.5	1.4
Price to Book Value	3.0	3.2	2.9	2.5
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.9	1.9	1.9	1.9
Quick Ratio	1.9	1.9	1.9	1.9

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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