

**CMP: INR 445**

**Rating: Buy**

**Target Price: INR 550**

**Stock Info**

BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Capital (INR mn)	555
Mkt Cap (INR mn)	1,22,935
52w H/L (INR)	586/ 224
Avg Yearly Vol (in 000')	2,617

**Shareholding Pattern %**

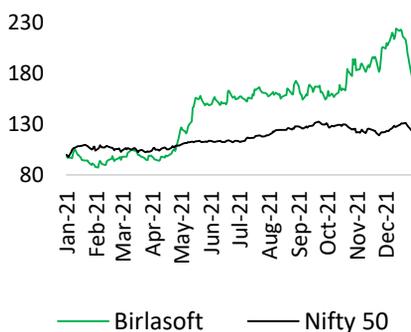
(As on December, 2021)

Promoters	40.55
FII	17.39
DII	18.31
Public & Others	23.75

**Stock Performance (%)**

	1m	3m	12m
Birlasoft	(16.6)	8.1	70.3
Nifty 50	(0.7)	(6.9)	21.4

**Birlasoft Vs Nifty 50**



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**Birlasoft has reported a Good set of numbers in Q3FY22.**

- Consolidated revenue stood at INR 10,719Mn, against Q3FY21 of INR 8808 Mn registering a growth of 6% QoQ/21.7% YoY
- EBITDA stood at INR 1,628 Mn, against Q3FY21 of INR 1,444 Mn, Registering growth of 7.2%QoQ/12.7%YoY.
- On the margins front, EBITDA margin contracted by 122bps YoY/+18 QoQ to 15.2%, against Q3FY21 of 16.4%.
- Consolidated PAT saw a growth of 18.2%YoY/+10.5% QoQ to INR 1140 Mn against Q3FY21 of INR 964 Mn.
- EPS stood at INR 4.1 in Q3FY22 against INR 3.5 in Q3FY21 (INR 3.7in Q2FY22).
- Signed deals of TCV \$ 182 M during the quarter and New deal TCV wins of \$ 121 M in Q2. Active Client Count at 285. \$ 5 M customer at 21; up by 1 QoQ o Top 10 & Top 20 customers grew 21.4% & 22.9% YoY, respectively
- The company headcount stood at 11,945 as of December 31, 2021, and added 1,546 professionals on a YoY basis.

**Q3FY22 Conference call Highlights:**

- The company is seeing momentum pipeline and good queries coming from client side. Cloud and based service or any other services and seeing good set of momentum. Talent supply is a constraint. Challenge is talent supply. Deals are large for the company in small deals.
- Attrition side is a good news and leading indicator hire momentum as they see. Attrition is high and peer companies are 27% around. It will stabilize around 18-20% in near future.
- Deal pipeline is \$1.2bn. It's a sale pipeline for the deals the company is working on. Once they reach the deal they will have to see and good number and good size and win on TCV side. 100mn lesser in the previous quarter. Enterprise solution deals are going up.

**Valuations**

At a CMP of INR 445, Birlasoft is currently trading at a PE of 20.7x to its FY24E EPS of INR 21.2. The company expects to achieve US\$1bn revenue by 2025 and its likely to continue to sustain margins above 15% which will lead to a healthy deal pipeline going forward. We believe growth in ERP and improving price will lead to strong revenue growth in FY23E. As Birlasoft has a strong partnership with hyperscalers like AWS, Microsoft Azure, and Google Cloud due to which revenue growth is expected to be healthy going ahead.

**We value Birlasoft at a PE of 26x to its FY24E EPS of INR 21.7, which yields a target price of INR 550 per share. Accordingly, we recommend a BUY rating on the shares of Birlasoft.**

	FY20	FY21	FY22E	FY23E	FY24E
Sales	32,910	35,557	41,202	46,774	52,203
EBITDA	3,869	5,293	6,334	7,487	8,721
Reported PAT	2,243	3,210	4,435	5,179	5,869
EBITDAM (%)	11.8	14.9	15.4	16.0	16.7
PE (x)	54.0	37.8	27.4	23.5	20.7
EPS	8.1	11.6	16.0	18.7	21.2

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q3FY22 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	199.1	182.3	146	9.2%	36.2%
<b>Net Revenue</b>	<b>14,917</b>	<b>13,512</b>	<b>10,754</b>	<b>10.4%</b>	<b>38.7%</b>
Employee Cost	11,135	10,092	7,741	10.3%	43.8%
Other Expenses	1,272	1,177	1,188	8.1%	7.0%
<b>EBITDA</b>	<b>2,511</b>	<b>2,244</b>	<b>1,825</b>	<b>11.9%</b>	<b>37.6%</b>
<i>EBITDA Margin %</i>	<i>16.8%</i>	<i>16.6%</i>	<i>17.0%</i>	<i>23bps</i>	<i>-14bps</i>
Depreciation	428	371	461	15.4%	-7.2%
<b>EBIT</b>	<b>2,083</b>	<b>1,873</b>	<b>1,364</b>	<b>11.2%</b>	<b>52.7%</b>
Other Income	307	324	300	-5.4%	2.2%
Finance Cost	26	21	14	21.8%	85.5%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>2,364</b>	<b>2,176</b>	<b>1,650</b>	<b>8.6%</b>	<b>43.3%</b>
Tax Expense	600	559	441	7.4%	36.1%
<i>Effective Tax Rate %</i>	<i>25.4%</i>	<i>25.7%</i>	<i>26.7%</i>	<i>-29bps</i>	<i>-133bps</i>
<b>PAT</b>	<b>1,764.0</b>	<b>1,618</b>	<b>1,209</b>	<b>9.1%</b>	<b>45.9%</b>
MI & Associates	-	-	-	-	-
<b>Consolidated PAT</b>	<b>1,764.0</b>	<b>1,617.5</b>	<b>1,209</b>	<b>9.1%</b>	<b>45.9%</b>
<i>PAT Margin %</i>	<i>11.8%</i>	<i>12.0%</i>	<i>11.2%</i>	<i>-15bps</i>	<i>58bps</i>
<b>EPS (INR)</b>	<b>23.08</b>	<b>21.16</b>	<b>15.82</b>	<b>9.0%</b>	<b>45.9%</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

**Q3FY22 other highlights**

- Lifesciences going down because of normalization of number and have done a big release for the previous quarter. Revenue not received for transformation program yet but will come soon in transformation program.
- Net new deal TCV is about 7%+ and come up from last quarter. 182mn deal wins this quarter is far and far better.
- More than 15% EBITDA margins in the near future. Number of days are not much higher than Q3. Farlow wont be there. Value is coming by next level ERP where inter company exchange of data is coming. All erp is growing in that direction.
- Attrition is about 31% or so for Q3. Quarterly annualized is 34% and previous quarter 30%.
- Margin improvement came from volume growth and improve operating levered and optimizing work and utilization this quarter. 90bps on account of volume growth. One time contract spend 50bps.
- Growing for 20% for top 20 customer and have better growth in top of accounts. No slowdown in client side. Careful about the resources as they are limited. Trying to add more important clients.
- Efforts are not going to change and have changed the incentives structure. Going on OEM base net new selling and have gone at a good success. Commission based and continue for client relationship. Incentive have change every 3 years. Hunting engine separate from farming and accounting so that sale doesn't get impacted. Continue to change in behaviours in every way they sell it to the client.
- Sale and support is 1104 in comparison to 1120 QoQ.
- Number of fresher added in 9 months 900 are added. Going forward they will add 1500. Q3 fresher 300 odd digit. Annuity revenue mix last quarter 72% and will be computed in next quarter.
- ERP side seeing growth in all side in the SAP side and oracle side. Niche solution growth has been picked up. Attrition has picked up and pipeline to grow and upscale by hiring people. Hire lateral people and hiring junior people and upscaling them.

## Key Financials

## Profit &amp; Loss Account

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Net sales	32,910	35,557	41,202	46,774	52,203
Other operating income					
Consumption of materials	-	-	-	-	-
Staff Expenses	19,975	21,158	23,462	27,125	29,909
Other operating expenses	9,065	9,107	11,406	12,161	13,573
Total Expenditure	29,041	30,264	34,868	39,286	43,482
<b>EBITDA</b>	<b>3,869</b>	<b>5,293</b>	<b>6,334</b>	<b>7,487</b>	<b>8,721</b>
<b>EBITDA Margin</b>	<b>11.76%</b>	<b>14.89%</b>	<b>15.37%</b>	<b>16.01%</b>	<b>16.71%</b>
Depreciation	826	804	795	935	1,201
<b>Operating profit</b>	<b>3,043</b>	<b>4,489</b>	<b>5,539</b>	<b>6,552</b>	<b>7,520</b>
Other income	480	190	561	620	645
<b>EBIT</b>	<b>3,523</b>	<b>4,680</b>	<b>6,100</b>	<b>7,172</b>	<b>8,165</b>
Interest	161	130	125	125	125
Exceptional items	-	-	-	-	-
<b>Profit before tax</b>	<b>3,362</b>	<b>4,549</b>	<b>5,974</b>	<b>7,047</b>	<b>8,040</b>
Tax	1,119	1,339	1,540	1,867	2,171
Share in profit of associate cos					
Minority interest	-	-	-	-	-
<b>Reported net profit</b>	<b>2,243</b>	<b>3,210</b>	<b>4,435</b>	<b>5,179</b>	<b>5,869</b>
EO Items	-	-	-	-	-
<b>Adjusted net profit</b>	<b>2,243</b>	<b>3,210</b>	<b>4,435</b>	<b>5,179</b>	<b>5,869</b>
Share O/s mn	277	277	278	278	278
Adj. EPS Rs	8.1	11.6	16.0	18.7	21.2

## Balance Sheet

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
<b>APPLICATION OF FUNDS :</b>					
<b>Non Current Assets</b>	<b>9,989</b>	<b>8,892</b>	<b>9,125</b>	<b>9,326</b>	<b>9,550</b>
Fixed Assets	1,579	1,326	1,444	1,444	1,444
Capital work in progress	24	65	-	-	-
Goodwill & other Intangibles	4,541	4,476	4,476	4,476	4,476
Noncurrent investment	-	-	-	-	-
Deferred tax assets	2,158	1,304	1,417	1,540	1,673
Long term loans and advances	147	144	151	159	167
Other non-current assets	1,540	1,575	1,636	1,707	1,789
<b>Current Assets</b>	<b>16,885</b>	<b>21,053</b>	<b>25,202</b>	<b>29,618</b>	<b>35,641</b>
Current investment	330	553	553	553	553
Inventories	-	-	-	-	-
Sundry debtors	8,140	6,318	7,527	8,545	8,910
Cash and bank	6,301	10,430	13,103	16,241	21,955
Short loans and advances	21	35	36	38	40
Others current assets	2,092	3,717	3,982	4,241	4,182
<b>Total Assets</b>	<b>26,873</b>	<b>29,944</b>	<b>34,327</b>	<b>38,944</b>	<b>45,191</b>
<b>SOURCES OF FUNDS :</b>					
Share Capital	553	555	555	555	555
Reserves	18,371	21,245	24,708	28,500	32,704
<b>Total Shareholders Funds</b>	<b>18,924</b>	<b>21,799</b>	<b>25,263</b>	<b>29,055</b>	<b>33,259</b>
Minority interest	-	-	-	-	-
<b>Non-Current Liabilities</b>	<b>1,835</b>	<b>1,802</b>	<b>1,882</b>	<b>1,970</b>	<b>2,087</b>
Long term borrowings	-	-	-	-	-
Deferred tax liability	-	-	-	-	-
Other long term liabilities	1,140	999	999	999	1,019
Long-term provisions	695	803	883	971	1,069
<b>Current Liabilities</b>	<b>6,114</b>	<b>6,344</b>	<b>7,182</b>	<b>7,919</b>	<b>9,845</b>
Short term borrowings	-	-	-	-	-
Trade payables	1,904	1,318	1,693	1,922	3,290
Other current liabilities	4,016	4,789	5,239	5,735	6,280
Short term provisions	195	237	249	261	275
<b>Total Equity &amp; Liabilities</b>	<b>26,873</b>	<b>29,944</b>	<b>34,327</b>	<b>38,944</b>	<b>45,191</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Key Financials

Cash Flow Statement					
Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
PBT	3,362	4,548	5,974	7,047	8,040
Non-cash adjustments	1,451	852	359	441	681
Changes in working capital	(885)	845	(620)	(522)	1,639
Tax Paid	(805)	(667)	(1,597)	(1,929)	(2,237)
<b>Cashflow from operations</b>	<b>3,124</b>	<b>5,578</b>	<b>4,117</b>	<b>5,037</b>	<b>8,123</b>
Capital expenditure	(519)	(246)	(847)	(935)	(1,201)
Change in investments	38	(4,355)	-	-	-
Other investing cashflow	18	157	500	549	562
<b>Cashflow from investing</b>	<b>(462)</b>	<b>(4,444)</b>	<b>(347)</b>	<b>(386)</b>	<b>(639)</b>
Issue of equity	8	2	-	-	-
Issue/repay debt	(381)	-	-	-	-
Interest Paid	(34)	(21)	(125)	(125)	(125)
Increase / (Decrease) in Loan Funds	-	-	-	-	-
Dividends paid	(996)	(554)	(970)	(1,388)	(1,665)
Other financing cashflow	(380)	(395)	(1)	-	20
<b>Cashflow from financing</b>	<b>(1,783)</b>	<b>(969)</b>	<b>(1,097)</b>	<b>(1,513)</b>	<b>(1,770)</b>
<b>Change in cash &amp; cash eq</b>	<b>879</b>	<b>165</b>	<b>2,673</b>	<b>3,138</b>	<b>5,714</b>
<b>Opening cash &amp; cash eq</b>	<b>3,617</b>	<b>4,496</b>	<b>10,430</b>	<b>13,103</b>	<b>16,241</b>
<b>Closing cash &amp; cash eq</b>	<b>4,496</b>	<b>4,661</b>	<b>13,103</b>	<b>16,241</b>	<b>21,955</b>
<b>Closing cash &amp; Bank Bal.</b>	<b>6,301</b>	<b>10,430</b>	<b>18,872</b>	<b>22,010</b>	<b>27,724</b>
<b>Free cash flow to firm</b>	<b>2,605</b>	<b>5,332</b>	<b>3,270</b>	<b>4,101</b>	<b>6,922</b>
Ratios					
Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
<b>PER SHARE</b>					
EPS INR	8.1	11.6	16.0	18.7	21.2
CEPS INR	11.1	14.5	18.8	22.0	25.5
Book Value INR	68.4	78.7	91.0	104.7	119.9
<b>VALUATION</b>					
EV / Net Sales	3.5	3.2	2.7	2.3	1.9
EV / EBITDA	30.1	21.2	17.3	14.3	11.6
P / E Ratio	54.9	38.4	27.9	23.8	21.0
P / BV Ratio	6.5	5.7	4.9	4.3	3.7
<b>GROWTH YOY%</b>					
Sales Growth	(0.4)	8.0	15.9	13.5	11.6
EBITDA Growth	20.8	36.8	19.7	18.2	16.5
Net Profit Growth	(29.6)	43.1	38.1	16.8	13.3
Gross Fixed Asset Growth	6.1	14.1	15.9	15.5	17.3
<b>PROFITABILITY</b>					
Gross Profit/ Net sales ( %)	39.3	40.5	43.1	42.0	42.7
EBITDA / Net Sales (%)	11.8	14.9	15.4	16.0	16.7
EBIT / Net sales(%)	9.2	12.6	13.4	14.0	14.4
NPM / Total income (%)	6.8	9.0	10.8	11.1	11.2
ROE (%)	11.9	14.7	17.6	17.8	17.6
ROCE (%)	17.0	19.8	22.5	23.1	23.1
Tax / PBT %	33.3	29.4	25.8	26.5	27.0
<b>TURNOVER</b>					
Net Working Cycle	69	51	52	52	39
Debtors Velocity (Days)	90	65	67	67	62
Inventory (Days)	-	-	-	-	-
Creditors Velocity (Days)	21	14	15	15	23
Current Ratio	2.8	3.3	3.5	3.7	3.6
Quick Ratio	2.8	3.3	3.5	3.7	3.6
<b>LIQUIDITY</b>					
Gross Asset Ratio	7.2	6.8	6.8	6.7	6.4
Total Asset Ratio	1.2	1.2	1.2	1.2	1.2
Net Debt-Equity Ratio	(0.4)	(0.5)	(0.5)	(0.6)	(0.7)
Interest Coverage	21.8	35.9	48.6	57.2	65.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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