

CMP: INR 471

Rating: Buy

Target Price: INR 582

Stock Info

BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Capital (INR mn)	551.1
Mkt Cap (INR mn)	1,31,473
52w H/L (INR)	855/503
Avg Yearly Vol (in 000')	1882

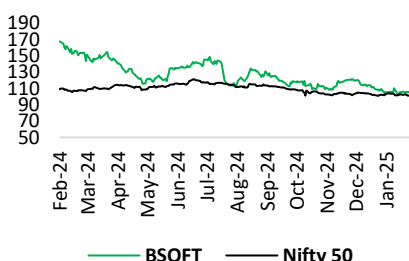
Shareholding Pattern %

(As on Dec, 2024)

Promoters	40.82
FII	11.00
DII	24.63
Public & Others	23.50

Stock Performance (%)	1m	6m	12m
Birlasoft	-8.5	10.6	38.8
Nifty 50	-1.5	-5.2	6.7

Birlasoft Vs Nifty 50



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Birlasoft(BSFOT) reported consolidated revenue slightly below estimate; margin slightly up due to lower expenses and depreciation. However, PAT drops significantly due to higher finance costs and lower other income. Birlasoft reported Q3FY25 revenues of USD 160.8 mn down 1.5% QoQ/flat YoY versus (Our estimate of USD 161 Mn). Constant currency (CC) revenue growth is down 1.1% QoQ/ flat YoY. The company has reported consolidated revenue of INR 13,627 Mn, +1.5% YoY/ -0.4% QoQ in Q3FY25 slightly below (Our estimate of INR 13,789 Mn). Flat growth sequentially led by Manufacturing (+0.3% QoQ/-0.6% YoY) Energy & utility (+10.4% YoY/-2.8% QoQ) Life science (-3.4% QoQ/-15.1% YoY) while BFSI (+18.6% YoY/+2.8% QoQ). Consolidated EBIT stood at INR 1,422 Mn above (Our estimate of INR 1342 Mn) led by lower other expense & Depreciation. EBIT margin came at 10.4% above estimate of 9.73% down by 3 bps QoQ/down by 396bps. Consolidated PAT stood at INR 1,169 Mn, below (Our estimate of INR 1210 Mn) down 8.3% QoQ/down 27.4% YoY led by higher finance cost and lower other income. The order booking for Q3FY25, was at US \$64 mn in TCV (De-growth 28.1% QoQ/down 31.9% YoY) and renewals of \$ 162Mn. Active Client Count at 265in Q3FY25 (up from 261 in Q2FY25, with the number of \$5M+ clients rising from 24 in Q2FY25 to 27 in Q3FY25). DSO down by 5 Days to 53 Days in Q3FY25. LTM attrition up by 90bps QoQ at 12.7%; Headcount down by 453 to 12,125 in total. IT Utilization decline by 20bps QoQ; Offshore revenue 51% against 49.5% in Q2FY25.

Target to improve margin sequentially going forward: Birlasoft reported an EBITDA margin of 12% for Q3, nearly unchanged from Q2. Despite the impact of compensation hikes effective from October 1, 2024, the company managed to maintain margins, supported by favorable exchange rate movements and operational savings. Management remains committed to improving margins over time, with an aspiration to reach 15-16%, though the path may be gradual due to Q4 headwinds. Internal cost optimization processes and efficiency initiatives are in place to drive margin improvement quarter-over-quarter, though recent furloughs have posed challenges. Potential future headwinds include shifts in business mix favoring lower-margin segments, possible pricing pressures, and competitive pricing on new deals. However, the company remains focused on balancing margin expansion with strategic investments for growth.

Demand expected to pick up from FY26 onwards: The company sees early signs of improvement in BFSI and discretionary spending but remains cautious about a broad-based recovery. Demand is expected to gradually pick up through the year, though it may take a few quarters to reflect in deal inflows and revenues. The overall demand environment remains largely unchanged, with only limited recovery in financial services. Any meaningful improvement is likely to be more back-ended in the calendar year.

Valuations

Birlasoft reported a disappointing performance in Q3FY25, primarily due to high furloughs (150bps), especially within the life sciences and manufacturing sectors, which continued into January. Some furloughs are also extending into Q4, compounded by the effects of wage hikes. The company is struggling with both growth and deal wins. The weak exit rate and soft TCV outlook suggest a challenging FY26 as well. EPS estimates for FY26E/27E have been reduced by 4%/5%.The company aims for 15-16% EBITDA margins, but the path to achieving this may be slower due to ongoing challenges in Q4. We believe the stock is available at a cheaper level due to a 39% correction within a year amid uncertainty in the industry. However, there are early signs of demand recovery in sectors like financial services, and the EMU vertical is expected to lead growth over the next year. The manufacturing vertical is expected to remain soft for a couple more quarters. **Our valuation, based on a PE of 24x FY27E EPS of ~INR 24.2, yields a target price of INR 582 per share. We upgrade our rating to a "Buy" from an Accumulate earlier.**

Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)

Particulars (in INR Mn)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	160.80	163.30	161.30	-1.5%	-0.3%
Net Revenue	13,627	13,682	13,430	-0.4%	1.5%
Employee cost	8,329	8,296	7,934	0.4%	5.0%
Other Expenses	3,664	3,732	3,352	-1.8%	9.3%
EBITDA	1,634	1,653	2,143	-1.2%	-23.7%
EBITDA margin %	12.0%	12.1%	16.0%	-9bps	-396bps
Depreciation	213	222	211	-4.4%	1.0%
EBIT	1,422	1,431	1,932	-0.7%	-26.4%
EBIT margin %	10.4%	10.5%	14.4%	-3bps	-396bps
Other Income	208	334	282	-37.7%	-26.2%
Finance costs	69	68	60	2.4%	16.8%
PBT	1,560	1,697	2,154	-8.1%	-27.6%
Tax Expense	390	422	544	-7.4%	-28.2%
Effective tax rate %	25.0%	24.9%	25.2%	0.7%	-0.8%
PAT	1,169.39	1,275.07	1,610.58	-8.3%	-27.4%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,169.39	1,275.07	1,610.58	-8.3%	-27.4%
Exceptional item	-	-	-	-	-
Reported PAT	1,169.39	1,275.07	1,610.58	-8.3%	-27.4%
PAT margin %	8.6%	9.3%	12.0%	-74bps	-341bps
EPS (INR)	4.2	4.6	5.8	-8.5%	-27.8%
Particulars (in INR Mn)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	3,285	3,196	2,770	2.8%	18.6%
Manufacturing	5,472	5,458	5,504	0.3%	-0.6%
Energy and Utilities	2,144	2,205	1,942	-2.8%	10.4%
Life Sciences	2,727	2,824	3,213	-3.4%	-15.1%

Source: Arihant Research, Company Filings

Birlasoft – Q3FY25 Concall KTAs

- FY25 described as a "bad year", focus on returning to growth in FY26
- Q3 performance was impacted by higher-than-usual furloughs (150bps), particularly in the life sciences and manufacturing verticals, extending into January. Some furloughs are continuing into January, affecting Q4 as well. The demand environment remains largely unchanged from previous quarters
- Some early signs of demand improvement in areas like financial services, the overall demand environment remains challenging. The company expects gradual pickup as FY25 progresses.
- Clients expect demand to gradually improve through the year, though meaningful impact on deal inflows and revenues may take a few quarters.
- Early signs of recovery in financial services and discretionary spending, but it's too soon to confirm a full demand turnaround.
- Expects good deal performance to continue in Q4 (TCV \$226 Mn in Q3)
- EBITDA margin was maintained at 12% despite wage hikes. Goal is to improve margins quarter-over-quarter. The company was able to largely offset the impact of the wage hike through exchange rate benefits from a strong dollar and some operational savings, wage increase that came into effect from October 1, 2024. Aspiration remains to reach 15-16% EBITDA margins, though the path to get there may be slower due to headwinds in Q4.
- Focusing on improving predictability, expanding its client base, and investing in capabilities like AI and Gen AI to drive future growth.
- Some project ramp-downs seen in healthcare and manufacturing in Q3 may have near-term revenue impact.
- Deal pipeline remains healthy. No pricing pressure from clients yet, but new deal competition is intense.
- Segments: Hired new leaders for medical devices and pharma businesses. Financial services and EMU verticals expected to lead growth over next year. Manufacturing vertical expected to remain soft for a couple more quarters.
- Cash balance increased to \$240 mn, up 18.3% YoY.
- Company is working to add new logos across verticals.
- ERP business expected to turn around in the medium term.
- Top 6-10 accounts saw sharp sequential decline of 5%. Company focusing on improving mining of top accounts.
- No immediate plans to return cash to shareholders, conserving for potential opportunities. Continue to give the dividend to shareholder
- Confident about closing a reasonable-sized deal with a new logo in Europe.
- Infrastructure business outperforming applications business may impact margins.
- Expects any demand improvement to be more back-ended in the calendar year, not in the next two quarters.
- Won a strategically significant "marquee deal" with a new client in Europe, though not large in size.

Exhibit 3: Key Operating Metrics

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
USD Revenues (\$ Mn)	148.4	149.10	153.60	158.30	161.30	163.90	159.10	163.30	160.80
QoQ growth %	-0.3%	0.5%	3.0%	3.1%	1.9%	1.6%	-2.9%	2.6%	-1.5%
USD/INR	82.3	82.26	82.2	83.2	84.2	83.12	83.41	83.78	84.73
Client Geography	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Americas	124.2	127.2	131.8	135.8	138.2	141.8	133.6	142.6	141.2
% contribution	83.7%	85.3%	85.8%	85.8%	85.7%	86.5%	84.0%	87.3%	87.8%
qoq	-0.7%	2.4%	3.6%	3.1%	1.8%	2.6%	-5.7%	6.7%	-1.0%
yoy	4.5%	5.7%	4.5%	8.5%	11.3%	11.5%	1.4%	5.0%	2.1%
Rest of the World	24.2	8.5	9.2	22.5	23.1	22.1	25.5	20.7	19.6
% contribution	16.3%	5.7%	6.0%	14.2%	14.3%	13.5%	16.0%	12.7%	12.2%
qoq	158.0%	-64.9%	8.4%	143.9%	2.6%	-4.1%	15.0%	-18.5%	-5.4%
yoy	163.6%	-12.0%	5.1%	139.8%	-4.6%	160.4%	176.2%	-7.7%	-14.9%
Revenue by Industry Verticals	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
BFSI	29.8	30.6	31.8	33.4	33.2	34.7	37.5	38.0	38.8
% contribution	20.1%	20.5%	20.7%	21.1%	20.6%	21.2%	23.6%	23.3%	24.1%
qoq	5.0%	2.5%	4.0%	5.1%	-0.5%	4.6%	8.1%	1.3%	1.8%
yoy	17.5%	21.4%	20.2%	17.5%	11.4%	13.7%	18.1%	13.9%	16.6%
Energy & Utilities	20.6	22.2	22.0	21.7	23.4	24.3	25.1	26.3	25.2
% contribution	13.9%	14.9%	14.3%	13.7%	14.5%	14.8%	15.8%	16.1%	15.7%
qoq	-1.7%	7.7%	-1.1%	-1.3%	7.8%	3.7%	3.6%	4.6%	-4.0%
yoy	-2.8%	0.5%	3.4%	3.4%	13.4%	9.2%	14.4%	21.2%	7.9%
Lifesciences	29.5	26.2	37.5	38.0	38.6	36.2	34.0	33.6	32.2
% contribution	19.9%	17.6%	24.4%	24.0%	23.9%	22.1%	21.4%	20.6%	20.0%
qoq	1.3%	-11.1%	42.8%	1.4%	1.5%	-6.0%	-6.0%	-1.2%	-4.4%
yoy	-7.7%	-17.0%	19.0%	30.3%	30.5%	38.0%	-9.2%	-11.5%	-16.6%
Manufacturing	68.4	70.2	62.5	65.1	66.3	68.7	62.4	65.3	64.5
% contribution	46.10%	47.10%	40.70%	41.10%	41.10%	41.90%	39.20%	40.00%	40.10%
qoq	-2.6%	2.7%	-11.0%	4.1%	1.9%	3.6%	-9.2%	4.7%	-1.3%
yoy	5.5%	4.1%	-9.9%	-7.4%	-3.1%	-2.2%	-0.2%	0.4%	-2.7%
Revenue by Service Offerings	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Digital & Cloud	45.6	47.3	83.3	87.9	89.4	87.7	83.8	89.3	91.5
% contribution	30.70%	31.70%	54.20%	55.50%	55.40%	53.50%	52.70%	54.70%	56.90%
ERP	39.5	41.7	44.0	43.7	44.1	47.8	46.6	50.6	47.9
% contribution	31.80%	32.80%	33.40%	32.20%	31.90%	33.70%	34.90%	35.50%	33.90%
Infrastructure	13.8	11.3	12.9	12.5	13.7	14.4	19.7	16.0	14.6
% contribution	9.30%	7.60%	8.40%	7.90%	8.50%	8.80%	12.40%	9.80%	9.10%
Revenue by Service Offerings	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Revenues by Contract Type	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Time & Material	39.20%	38.30%	38.50%	39.10%	37.30%	38.40%	37.30%	36.00%	35.20%
Fixed Price, Fixed Monthly	60.8%	61.7%	61.5%	60.9%	62.7%	61.6%	62.7%	64.0%	64.8%
Revenues Mix	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Onsite	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Onsite	48.9%	48.6%	49.0%	48.8%	45.8%	47.8%	43.5%	50.5%	49.0%
qoq	1.6%	-0.1%	3.9%	2.6%	-4.4%	6.0%	-11.7%	19.2%	-4.5%
yoy									
Offshore	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Offshore	51.1%	51.4%	51.0%	51.2%	54.2%	52.2%	56.5%	49.5%	51.0%
qoq	-2.0%	1.1%	2.2%	3.5%	7.9%	-2.1%	5.1%	-10.1%	1.5%
yoy									
Deal Wins - New	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
New Total Contract Value (TCV) - in \$ Mn	102	114	80	167	94	107	94	89	64
	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Total Headcount	12530	12,193	12235	12322	12,356	12,595	12,865	12,578	12,125
Addition/Deletion	-228	-337	42	87	34	239	270	-287	-453
Technical	11386	11,043	11061	11130	11,169	11,433	11,597	11,417	11,000
Addition/Deletion	-182	-343	18	69	39	264	164	-180	-417
Sales & Support	1144	1,150	1174	1192	1187	1162	1268	1161	1125
Addition/Deletion	-46	6	24	18	-5	-25	106	-107	-36
Women Employees	2943	2,852	2863	2906	2892	2968	3048	2972	2891
Attrition (LTM)	25.50%	22.10%	18.80%	15.00%	12.60%	12.40%	11.60%	11.80%	12.70%
Utilization	84.00%	84.80%	84.90%	86.50%	87.10%	86.30%	81.70%	82.00%	81.80%

Source: Arianth Research, Company Filings

Profit & Loss Account

Y/E Mar	FY24	FY25E	FY26E	FY27E
Revenue in USD mn	637	647	675	703
Growth (%)	7.09%	1.5%	4.3%	4.1%
Net sales	52,781	54,421	57,173	59,052
Growth (%)	10.08%	3.1%	5.1%	3.3%
Consumption of materials	-	-	-	-
Staff Expenses	30,483	32,674	34,458	34,559
Other operating expenses	13,936	14,854	15,437	16,383
Total Expenditure	44,419	47,529	49,895	50,943
EBITDA	8,362	6,892	7,278	8,109
EBITDA Margin	15.84%	12.66%	12.73%	13.73%
Depreciation	850	1,609	1,783	1,918
Operating profit	7,512	5,283	5,495	6,192
Other income	1,035	1,090	1,410	1,500
EBIT	8,547	6,373	6,905	7,692
EBIT Margin	16.19%	11.71%	12.08%	13.03%
Interest	199	249	264	260
Exceptional items	-	-	-	-
Profit before tax	8,348	6,124	6,641	7,432
Tax	2,110	1,513	1,660	1,858
Share in profit of associate cos	25.3%	24.7%	25.0%	25.0%
Minority interest	-	-	-	-
Reported net profit	6,238	4,612	4,981	5,574
EO Items	-	-	-	-
Adjusted net profit	6,238	4,611	4,986	5,574
Share O/s mn	278	230	230	230
Adj. EPS INR	22.5	17.9	21.7	24.2

Balance Sheet

Y/E Mar	FY24	FY25E	FY26E	FY27E
APPLICATION OF FUNDS :				
Non Current Assets	8,723	9,235	10,164	11,292
Fixed Assets	1,142	1,612	2,365	3,296
Capital work in progress	116	-	-	-
Goodwill & other Intangibles	4,957	4,957	4,957	4,957
Noncurrent investment	-	-	-	-
Deferred tax assets	1,283	1,391	1,507	1,633
Long term loans and advances	-	-	-	-
Other non-current assets	1,224	1,276	1,336	1,406
Current Assets	27,674	36,867	40,123	43,770
Current investment	10,336	10,336	10,336	10,336
Inventories	-	-	-	-
Sundry debtors	10,365	8,200	8,615	8,898
Cash and bank	4,249	15,447	18,144	21,357
Short loans and advances	-	-	-	-
Others current assets	2,723	2,884	3,028	3,178
Total Assets	39,256	46,102	50,288	55,062
SOURCES OF FUNDS :				
Share Capital	551.1	551.1	551.1	551.1
Reserves	29,889	35,698	39,183	43,262
Total Shareholders Funds	30,440	36,249	39,735	43,813
Minority interest	-	-	-	-
Non-Current Liabilities	1,290	1,373	1,463	1,561
Long term borrowings	-	-	-	-
Deferred tax liability	-	-	-	-
Other long term liabilities	578	589	601	613
Long-term provisions	712	784	862	948
Current Liabilities	7,458	8,480	9,090	9,687
Short term borrowings	-	-	-	-
Trade payables	2,805	3,429	3,603	3,721
Other current liabilities	4,022	4,388	4,792	5,235
Short term provisions	631	663	696	731
Total Equity & Liabilities	39,256	46,102	50,288	55,062

Source: Arianth Research, Company Filings

Key Financials

Cash Flow Statement				
Y/E Mar	FY24	FY25E	FY26E	FY27E
PBT	8,348	6,124	6,641	7,432
Non-cash adjustments	15	768	637	678
Changes in working capital	(285)	3,074	103	220
Tax Paid	(1,815)	(1,596)	(1,750)	(1,955)
Cashflow from operations	6,263	8,370	5,631	6,375
Capital expenditure	(544)	(1,963)	(2,536)	(2,849)
Change in investments	(5,428)	-	-	-
Other investing cashflow	1,057	1,038	1,350	1,430
Cashflow from investing	(4,915)	(925)	(1,186)	(1,419)
Issue of equity	1	-	-	-
Issue/repay debt	-	-	-	-
Interest Paid	(199)	(249)	(264)	(260)
Increase / (Decrease) in Loan Funds	-	-	-	-
Dividends paid	(1,663)	(1,746)	(1,495)	(1,495)
Other financing cashflow	(84)	12	12	12
Cashflow from financing	(1,946)	(1,983)	(1,747)	(1,743)
Change in cash & cash eq	(598)	5,463	2,698	3,213
Opening cash & cash eq	4,249	15,447	18,144	21,357
Closing cash & cash eq	3,651	20,909	20,842	24,570
Closing cash & Bank Bal.	3,975	21,233	21,166	24,894
Free cash flow to firm	5,719	6,407	3,095	3,526

Ratios				
Y/E Mar	FY24	FY25E	FY26E	FY27E
PER SHARE				
EPS INR	22.5	17.9	21.7	24.2
CEPS INR	25.5	25.0	25.2	26.1
Book Value INR	109.7	157.6	172.8	190.5
VALUATION				
EV / Net Sales	2.4	1.7	1.6	1.5
EV / EBITDA	15.1	13.5	12.4	10.7
P / E Ratio	21.0	26.4	21.7	19.4
P / BV Ratio	4.3	3.0	2.7	2.5
GROWTH YOY%				
Sales Growth	10.1	(4.8)	(2.4)	(3.6)
EBITDA Growth	24.5	(23.9)	(1.9)	4.0
Net Profit Growth	29.3	(31.8)	0.3	4.5
Gross Fixed Asset Growth	17.5	15.3	14.0	12.7
PROFITABILITY				
Gross Profit/ Net sales ((%))	42.2	40.0	39.7	41.5
EBITDA / Net Sales (%)	15.8	12.7	12.7	13.7
EBIT / Net sales(%)	14.2	9.7	9.6	10.5
NPM / Total income (%)	11.8	8.5	8.7	9.4
ROE (%)	20.5	12.7	12.5	12.7
ROCE (%)	26.9	16.9	16.8	17.0
Tax / PBT %	25.3	24.7	25.0	25.0
TURNOVER				
Net Working Cycle	52	37	41	46
Debtors Velocity (Days)	72	60	64	69
Inventory (Days)	-	-	-	-
Creditors Velocity (Days)	19	23	23	23
Current Ratio	3.7	4.3	4.4	4.5
Quick Ratio	3.7	4.3	4.4	4.5
LIQUIDITY				
Gross Asset Ratio	6.5	5.6	5.1	4.7
Total Asset Ratio	1.3	1.2	1.1	1.1
Net Debt-Equity Ratio	(0.1)	(0.4)	(0.5)	(0.5)
Interest Coverage	42.9	25.6	26.2	29.6

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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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