

**Strong results; Goal of \$1 bn revenue run-rate**

**CMP: INR 354**

**Rating: Buy**

**Target Price: INR 443**

**Stock Info**

BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Capital (INR mn)	559
Mkt Cap (INR mn)	1,04,447
52w H/L (INR)	586/ 280
Avg Yearly Vol (in 000')	3,091

**Shareholding Pattern %**

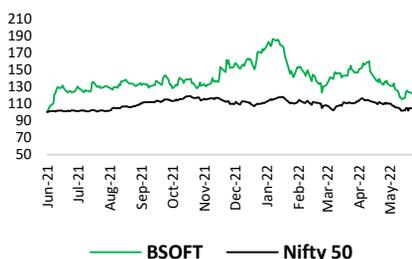
(As on March, 2022)

Promoters	40.40
FII	15.41
DII	22.6
Public & Others	21.5

**Stock Performance (%)**

	1m	3m	12m
Birlasoft	-10.9	-2.2	25.4
Nifty 50	-6.1	-0.7	6.1

**Birlasoft Vs Nifty 50**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

*Birlasoft(BSFOT) Ltd in Q4FY22; Beat on all the fronts. The BSFOT has reported consolidated revenue of INR 11014Mn, +22% YoY/2.8% QoQ in Q4FY22 against our estimate of INR 10,993 Mn backed by strong growth in Manufacturing and Energy and Utilities. Manufacturing grew by 32.8% YoY/5% YoY and Energy & Utilities grew by 5.2%QoQ/23.9% YoY. Consolidated EBIT stood at INR 1,546Mn, up by 14.8% YoY/7.3% QoQ against our estimate of INR 1,438 Mn. On the margins front, EBIT margin contracted by 87bps YoY. While expanded by 35bps QoQ to 14% against our estimate of 13.1%.Consolidated PAT stood at INR 1,329 Mn, up by 34.2% YoY/16.6% QoQ against our estimate of INR 1,208 Mn. Tax stood at INR 407 mn grew by 7.7% YoY/2.6% QoQ. The company has recommended a final dividend of INR 3 per share. Net cash flow from operations declined to INR 2806.90 Mn in FY22 vs INR 5578.42 Mn in FY21.*

**Q4FY22 Conference call Highlights:**

**Revenue:** Growth for FY23 will be higher than the FY22. The goal of \$1 bn revenue run-rate. The pipeline is strong and traction from both new and existing customers.

**Margin:** FY23 margin will be better than FY22.EBITDA margin improvement in Q4FY22 was backed by a decline in subcontract cost, better offshore revenue growth and pricing, and marginal improvement in travel cost. Headwinds:1) Attrition,2) wage hike., 3) supply side issue and 3) cross currency headwinds 10bps.

**Deal:** Signed deals of TCV \$ 696 M during the year. TCV new deal wins of \$ 444 M and renewals of \$ 252 M for FY22. > \$ 5 M customers at 25, up by 3 YoY 7.6% YoY due to normalizing growth one of the life science customer.9 customers in \$10mn bucket. The company continues to be getting good demand. The company is looking one large deal vs multiple small deals.

**Valuations**

At a CMP of INR 354, Birlasoft is currently trading at a PE of 16.8x to its FY24E EPS of INR ~21. 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 21x to its FY24E EPS of INR ~21, which yields a revised target price of INR 443 per share (earlier target price; INR 550 per share). Accordingly, we maintain a BUY rating on the stock.**

	FY21	FY22	FY23E	FY24E
Sales	35,557	41,304	46,774	52,203
yoy (%)	8.0	16.2	13.2	11.6
EBITDA	5,293	6,401	7,487	8,721
yoy (%)	36.8	20.9	17.0	16.5
Reported PAT	3,210	4,638	5,166	5,856
yoy (%)	43.1	44.5	11.4	13.4
EBITDAM (%)	14.9	15.5	16.0	16.7
PE (x)	30.6	21.2	19.0	16.8
EPS	11.6	16.7	18.6	21.1

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

## Q4FY22 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
<b>Revenue (CC Terms) (Mn USD)</b>	<b>146.4</b>	<b>221.6</b>	<b>123.3</b>	<b>-33.9%</b>	<b>18.7%</b>
<b>Net Revenue</b>	<b>11,014</b>	<b>10,719</b>	<b>9,029</b>	<b>2.8%</b>	<b>22.0%</b>
Employee cost	6,297	6,067	5,328	3.8%	18.2%
Other Expenses	2,972	3,024	2,177	-1.7%	36.5%
<b>EBITDA</b>	<b>1,745</b>	<b>1,628</b>	<b>1,524</b>	<b>7.2%</b>	<b>14.5%</b>
<b>EBITDA margin %</b>	<b>15.8%</b>	<b>15.2%</b>	<b>16.9%</b>	<b>66bps</b>	<b>-103bps</b>
Depreciation	200	188	178	6.5%	12.2%
<b>EBIT</b>	<b>1,546</b>	<b>1,440</b>	<b>1,346</b>	<b>7.3%</b>	<b>14.8%</b>
<b>EBIT margin %</b>	<b>14.0%</b>	<b>13.4%</b>	<b>14.9%</b>	<b>35bps</b>	<b>-87bps</b>
Other Income	226	128	51	77.3%	343.6%
Finance costs	36	31	29	14.8%	24.1%
<b>PBT</b>	<b>1,736</b>	<b>1,536</b>	<b>1,368</b>	<b>13.0%</b>	<b>26.9%</b>
Tax Expense	407	397	378	2.6%	7.7%
Effective tax rate %	23.4%	25.8%	27.6%	-237bps	-419bps
<b>PAT</b>	<b>1,329.0</b>	<b>1,140</b>	<b>990</b>	<b>16.6%</b>	<b>34.2%</b>
MI & Associates	-	-	-	-	-
<b>Consolidated PAT</b>	<b>1,329</b>	<b>1,140</b>	<b>990</b>	<b>16.6%</b>	<b>34.2%</b>
Exceptional item	-	-	-	-	-
<b>Reported PAT</b>	<b>1,329</b>	<b>1,140</b>	<b>990</b>	<b>16.6%</b>	<b>34.2%</b>
<b>PAT margin %</b>	<b>12.1%</b>	<b>10.6%</b>	<b>11.0%</b>	<b>44bps</b>	<b>110bps</b>
<b>EPS (INR)</b>	<b>4.7</b>	<b>4.1</b>	<b>3.6</b>	<b>16.2%</b>	<b>32.4%</b>

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

## Q4FY22 other highlights

- **Subcontract:** Q4FY22 15.8% of the revenue and 17.5%. The company has improved in Q4FY21.11.9% in FY21 and 11% in FY22. Talent is improving.
- **Offshore revenue** continues to show momentum and revenue from fixed price 60.7% vs 58.2% from previous. Offshore 49.9% vs 49.5% in Q3FY22 and Onsite 50.1% vs 50.5% in Q3FY22.
- **ERP:** 8-9% growth YoY.ERP is going to help to gain more and more deals. ERP growth has high single-digit growth.
- **Segment:** Optimistic more from the life science and energy utility. All the verticals have a good pipeline.
- **Headcount:** Strength of 12,204 as of 31st March 2022 versus 11,051 a year ago. Net addition of 1,153 professionals during the financial year and 259 during the quarter. Fresher addition 1800-2000 in FY22 and for FY23, the company is targeting for 2000-2200.
- The company did have an impact on the retention cost and hiring.
- **Tax:** Q4FY22 23.4% vs Q3FY22 25.8% one of from the subsidiary normalise tax 25%-26%.
- **Utilisation** is at 85.2% vs 85.4% in Q3FY22 and 82.8% in Q4FY21.In the range of 85-86% at the normal level.
- Other income fixed deposit and on account of forex.
- **Q4 DSO** at 58 days versus 56 days in Q4 FY21. Remain at this level. April performance was better as DSO was 54. The company will work in this range
- **Demand:** Demand is a healthy and robust pipeline. The company is confident to achieve the \$1bn goals.
- **Attrition:** Q4FY22 34.3% vs 31.4% in Q3FY22 multiple initiatives and launch the promotion for the performer. The company has started rewarding people to content people. QoQ attrition number will be down but it will be Q4FY22 is better than Q4FY22. Attrition 34.7% vs 34%.
- **ERP:** The previous growth was 2% and if divided by H1 and H2 so its trend is better.
- **Acquisition:** The company is looking for a few clients and up to \$3mn.
- **Buyback:** Board of directors approved the buyback of equity shares for an aggregate amount not exceeding INR 3,900/- M (Buyback Size) at a buyback price of INR 500/- per share. The Buyback is subject to approval by the shareholders.

## Key Financials

Profit & Loss Account				
Y/E Mar	FY21	FY22	FY23E	FY24E
Net sales	35,557	41,304	46,774	52,203
Other operating income	8%	16%	13%	12%
Consumption of materials	-	-	-	-
Staff Expenses	21,158	23,689	27,125	29,909
Other operating expenses	9,107	11,214	12,161	13,573
Total Expenditure	30,264	34,902	39,286	43,482
<b>EBITDA</b>	<b>5,293</b>	<b>6,401</b>	<b>7,487</b>	<b>8,721</b>
<b>EBITDA Margin</b>	<b>14.89%</b>	<b>15.50%</b>	<b>16.01%</b>	<b>16.71%</b>
Depreciation	804	765	935	1,201
<b>Operating profit</b>	<b>4,489</b>	<b>5,636</b>	<b>6,552</b>	<b>7,520</b>
Other income	190	662	620	645
<b>EBIT</b>	<b>4,680</b>	<b>6,298</b>	<b>7,172</b>	<b>8,165</b>
Interest	130	130	144	144
Exceptional items	-	-	-	-
<b>Profit before tax</b>	<b>4,549</b>	<b>6,168</b>	<b>7,028</b>	<b>8,021</b>
Tax	1,339	1,530	1,862	2,166
Share in profit of associate cos	-	-	-	-
Minority interest	-	-	-	-
<b>Reported net profit</b>	<b>3,210</b>	<b>4,638</b>	<b>5,166</b>	<b>5,856</b>
EO Items	-	-	-	-
<b>Adjusted net profit</b>	<b>3,210</b>	<b>4,638</b>	<b>5,166</b>	<b>5,856</b>
Share O/s mn	277	278	278	278
Adj. EPS Rs	11.6	16.7	18.6	21.1

Cash Flow Statement				
Y/E Mar	FY21	FY22	FY23E	FY24E
PBT	4,548	6,168	7,028	8,021
Non-cash adjustments	852	233	459	700
Changes in working capital	845	(2,436)	(614)	1,471
Tax Paid	(667)	(1,828)	(1,949)	(2,259)
<b>Cashflow from operations</b>	<b>5,578</b>	<b>2,137</b>	<b>4,924</b>	<b>7,933</b>
Capital expenditure	(246)	(1,043)	(833)	(1,201)
Change in investments	(4,355)	(2,704)	552	-
Other investing cashflow	157	1,488	109	630
<b>Cashflow from investing</b>	<b>(4,444)</b>	<b>(2,260)</b>	<b>(172)</b>	<b>(570)</b>
Issue of equity	2	4	-	-
Interest Paid	(21)	(130)	(144)	(144)
Dividends paid	(554)	(1,109)	(1,110)	(1,665)
Other financing cashflow	(395)	(89)	0	18
<b>Cashflow from financing</b>	<b>(969)</b>	<b>(1,323)</b>	<b>(1,254)</b>	<b>(1,791)</b>
<b>Change in cash &amp; cash eq</b>	<b>165</b>	<b>(1,446)</b>	<b>3,498</b>	<b>5,572</b>
<b>Opening cash &amp; cash eq</b>	<b>4,496</b>	<b>5,274</b>	<b>3,828</b>	<b>7,326</b>
<b>Closing cash &amp; cash eq</b>	<b>4,661</b>	<b>3,828</b>	<b>7,326</b>	<b>12,897</b>
<b>Closing cash &amp; Bank Bal.</b>	<b>5,274</b>	<b>4,750</b>	<b>8,248</b>	<b>13,820</b>
<b>Free cash flow to firm</b>	<b>5,332</b>	<b>1,094</b>	<b>4,092</b>	<b>6,732</b>

Balance Sheet				
Y/E Mar	FY21	FY22	FY23E	FY24E
<b>APPLICATION OF FUNDS :</b>				
<b>Non Current Assets</b>	<b>8,892</b>	<b>9,500</b>	<b>8,987</b>	<b>9,142</b>
Fixed Assets	1,326	1,562	1,476	1,476
Capital work in progress	65	17	-	-
Goodwill & other Intangibles	4,476	4,568	4,568	4,568
Noncurrent investment	-	552	-	-
Deferred tax assets	1,304	1,391	1,511	1,643
Long term loans and advances	144	162	170	179
Other non-current assets	1,575	1,249	1,262	1,277
<b>Current Assets</b>	<b>21,053</b>	<b>24,333</b>	<b>28,678</b>	<b>34,592</b>
Current investment	5,710	7,861	7,861	7,861
Sundry debtors	6,318	8,488	8,545	8,910
Cash and bank	5,274	3,828	7,326	12,897
Others current assets	3,752	4,156	4,946	4,923
<b>Total Assets</b>	<b>29,944</b>	<b>33,833</b>	<b>37,666</b>	<b>43,734</b>
<b>SOURCES OF FUNDS :</b>				
Share Capital	555	559	559	559
Reserves	21,245	25,272	28,828	33,019
<b>Total Shareholders Funds</b>	<b>21,799</b>	<b>25,831</b>	<b>29,387</b>	<b>33,578</b>
<b>Non-Current Liabilities</b>	<b>1,802</b>	<b>1,404</b>	<b>1,453</b>	<b>1,526</b>
Other long term liabilities	999	912	912	930
Long-term provisions	803	492	542	596
<b>Current Liabilities</b>	<b>6,344</b>	<b>6,599</b>	<b>6,825</b>	<b>8,630</b>
Trade payables	1,318	2,095	1,922	3,290
Other current liabilities	4,786	4,108	4,487	4,904
Short term provisions	240	396	416	437
<b>Total Equity &amp; Liabilities</b>	<b>29,944</b>	<b>33,833</b>	<b>37,666</b>	<b>43,734</b>

Ratios				
Y/E Mar	FY21	FY22	FY23E	FY24E
<b>PER SHARE</b>				
EPS INR	11.6	16.7	18.6	21.1
CEPS INR	14.5	19.5	22.0	25.4
Book Value INR	78.7	93.1	105.9	121.0
<b>VALUATION</b>				
EV / Net Sales	2.4	2.1	1.8	1.5
EV / EBITDA	16.5	13.5	11.1	8.9
P / E Ratio	30.6	21.2	19.0	16.8
P / BV Ratio	4.5	3.8	3.3	2.9
<b>PROFITABILITY</b>				
Gross Profit/ Net sales (%)	40.5	42.6	42.0	42.7
EBITDA / Net Sales (%)	14.9	15.5	16.0	16.7
EBIT / Net sales(%)	12.6	13.6	14.0	14.4
NPM / Total income (%)	9.0	11.2	11.0	11.2
ROE (%)	14.7	18.0	17.6	17.4
ROCE (%)	19.8	23.1	23.3	23.3
Tax / PBT %	29.4	24.8	26.5	27.0
<b>TURNOVER</b>				
Net Working Cycle	51	60	52	39
Debtors Velocity (Days)	65	75	67	62
Inventory (Days)	-	-	-	-
Creditors Velocity (Days)	14	15	15	23
<b>LIQUIDITY</b>				
Net Debt-Equity Ratio	(0.5)	(0.5)	(0.5)	(0.6)
Interest Coverage	35.9	48.4	49.8	56.7
<b>PAYOUT</b>				
Payout %	30.2	26.9	32.2	26.1
Per share	3.5	4.5	6.0	5.5
Yield %	1.0	1.3	1.7	1.6

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

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880