

CMP: INR 288

Rating: Buy

Target Price: INR 366

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)	7,43,569
52w H/L (INR)	501/ 262
Avg Yearly Vol (in 000')	2462

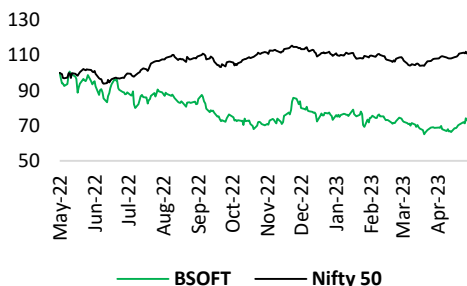
Shareholding Pattern %

(As on March, 2023)

Promoters	41.08
FII	11.47
DII	21.2
Public & Others	26.25

Stock Performance (%)	1m	3m	12m
Birlasoft	7.8	-0.24	-27.3
Nifty 50	3.8	2.2	11.3

Birlasoft Vs Nifty 50



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Birlasoft(BSFOT) Ltd in Q4FY23, good set of numbers led by growth in Financial and Manufacturing: The company has reported consolidated revenue of INR Mn, +11.3% YoY/0.4% QoQ in Q4FY23 to 12,264 against our estimate of INR 12,395 Mn backed by decent growth in BFSI, Manufacturing, and Energy& Utilities. In constant currency terms, revenues up 3.1% QoQ/9.1% YoY. BFSI grew by 32.5% YoY/2.3% QoQ, Manufacturing grew by 13.6% YoY/2.5% QoQ, and Energy & Utilities grew by 7.7%QoQ/10% YoY.

Margin expansion was driven by the top line performance: Consolidated EBITDA stood at INR 1,670 Mn vs of INR 74 Mn in Q3FY23 (Loss of INR 1,510 Mn Q3FY23). On the margins front, the EBITDA margin came at 13.6% against Q3FY23 of 0.6%. Consolidated EBIT stood at INR 1,460 Mn against our estimate of INR 1,455 Mn (Loss of INR 136 Mn Q3FY23). On the margins front, the EBIT margin came at 11.9% against our estimate of 11.7%. The company has entered into a Settlement and Mutual Release Agreement with Invacare. As per the Settlement Agreement approved on 24 April 2023, parties have mutually provided releases and waiver from claims. BSI would receive \$2 Mn for Disengagement Services ending on 31 May 2023.

Healthy TCV Deal wins: The company clocked a TCV deal wins of \$286 Mn (40% was new, 60% was renewal) against \$231 Mn in Q3FY23. As on March 31, Birlasoft had 288 active clients, with the top 10 bringing in nearly half of the annual revenue.

Valuations

Birlasoft reported a 3% CC growth in dollar revenues (excluding Invacare), outperforming its peers. The company is taking the necessary steps to turn the business around, including a focus on delivery, clients, investment in sales, and hiring leaders to drive vertical growth. We anticipate QoQ growth in the coming quarters, led by the BFSI sector, bottoming of the ERP business, and a healthy H2FY24E. The medium-term margin target is 15%-16%, and margin stabilization is expected from H2FY24 onwards, with an anticipated exit margin of 16% in FY24. We expect revenue growth at a CAGR of 16.5% during FY23-25E. **We value Birlasoft at a PE of 16x its FY25E EPS of INR 22.9, which yields a revised target price of INR 366 per share and we have maintained a BUY rating on the stock.**

Exhibit 1: Financial Performance

Y/E Mar	FY22	FY23	FY24E	FY25E
Revenue in USD mn	534	595	700	808
yoy (%)	11.3	11.4	17.7	15.4
Sales	41,304	47,948	57,413	67,063
yoy (%)	16.2	16.1	19.7	16.8
EBITDA	6,401	5,205	8,305	10,458
yoy (%)	20.9	(18.7)	59.6	25.9
Reported PAT	4,638	3,316	5,491	6,875
yoy (%)	44.5	(28.5)	65.6	25.2
EBITDAM (%)	15.5	10.9	14.5	15.6
EPS	16.7	11.9	19.8	22.9
PE (x)	17.2	24.1	14.6	12.6

Source: Arihant Research, Company Filings

Exhibit 2: Q4FY23 - Quarterly Performance (Consolidated)

Particulars (in INR Mn)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	149.10	148.40	146.4	0.5%	1.8%
Net Revenue	12,264	12,219	11,014	0.4%	11.3%
Employee cost	7,294	7,320	6,297	-0.3%	15.8%
Other Expenses	3,300	4,826	2,972	-31.6%	11.0%
EBITDA	1,670	74	1,745	2168.8%	-4.3%
EBITDA margin %	13.6%	0.6%	15.8%	-	-
Depreciation	210	210	200	-0.2%	5.0%
EBIT	1,460	-136	1,546	-1170.7%	-5.5%
EBIT margin %	11.9%	-1.1%	14.0%	-	-
Other Income	-23	124	226		
Finance costs	40	56	36	-28.6%	10.3%
PBT	1,397	-68	1,736	-	-
Tax Expense	276	95	407	189.1%	-32.3%
Effective tax rate %	19.7%	-139.5%	23.4%	-	-
PAT	1,121.68	-163.6	1,329.0	-785.6%	-15.6%
MI & Associates	-	-	-		
Consolidated PAT	1,121.68	-163.61	1,329	-785.6%	-15.6%
Exceptional item	-	-	-		
Reported PAT	1,121.68	-163.61	1,329	-785.6%	-15.6%
PAT margin %	9.1%	-1.3%	12.1%	-	-
EPS (INR)	4.1	-0.6	4.7	-789.8%	-14.0%

Particulars (in INR Mn)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	2,508	2,452	1,892	2.3%	32.5%
Manufacturing	5,766	5,627	5,078	2.5%	13.6%
Energy and Utilities	1,823	1,693	1,658	7.7%	10.0%
Life Sciences	2,167	2,448	2,386	-11.5%	-9.2%

Source: Arihant Research, Company Filings

Brilasoft Q4FY23- Conference call highlights

Guidance: The company settled amicably with Invacare, a positive step for BSOFT despite subdued macroeconomic conditions and sector-specific challenges. Clients may make slower decisions in the next few months as priorities shift, but conversations indicate continued spending on IT for efficiency improvements. Overall growth may be slightly muted due to Invacare's absence, but the company is confident in better growth for FY24. Medium term EBITDA margin target 15%-16%.

Strategy:

Management Restructuring: North America, which accounts for 85% of global revenues, will have four verticals: manufacturing, BFSI, energy utilities, and life sciences. Each vertical will have a P&L leader who reports to the North American CEO. For Europe and the rest of the world, separate leaders will expand the company's presence. BSOFT also has a Chief Growth Officer responsible for developing marketable solutions, and partnerships, and improving outreach. They will also manage the marketing function.

ERP: The company is getting all ERP practices under one leader so that the company has one common ERP practice.

Transformation: Cultural transformation, which will make an organization more responsive, and client-focused. The cultural transformation initiatives will be predicated on six big tenets. 1) high do ratio, have a growth-oriented mindset, 2) high customer centricity, quick decision-making, and 3) employee centricity. But overall, the number one initiative on the Cultural Transformation Tenet will be organization first.

EBITDA Margin: For the year stood at 14% before the one-time provision that the company took for Invacare. The medium-term margin target is 15%-16%, and margin stabilization is expected from H2FY24 onwards, with an anticipated exit margin of 16% in FY24.

Tax: Tax in Q4FY23 was at INR13.6 Mn. While the tax rate for Q4FY23 appears to be lower, this has been due to a partial reversal of tax provisions in Q3FY23.

One-time Provision: one-time provision on account of InvaCare. Direct income has been lowered due to lower interest income and forex loss on account of the restatement of assets. The company has concluded share buyback program in H1FY23, which has resulted in lower investable cash, in terms of lower interest income in FY23.

The company has a wage hike cycle in Q2.

Segment: Manufacturing will come back to growth. EMU will be a little soft for the company going forward. life sciences, management is optimistic about life sciences, wait and watch situation due to consolidation in that sector.

Active client: Decline in the active client front due to the company wanting to work with a few number of client so that the company can build a strong relationship with them. As a result, there may be a decline in active clients for the next few quarters as the company works with a select group of clients.

Exhibit 3: Key Operating Metrics

Client Geography	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Americas	103.6	95.0	118.9	120.3	126.2	125.1	124.2	127.2
% contribution	80.7%	82.2%	82.9%	82.2%	84.9%	84.1%	83.7%	85.3%
qoq	6.4%	-8.3%	25.1%	1.2%	4.8%	-0.8%	-0.7%	2.4%
yoy	14.6%	6.6%	27.0%	23.5%	21.8%	31.7%	4.5%	5.7%
Europe	15.2	12.1	15.3	16.4	13.7	14.3	15.3	13.4
% contribution	12%	11%	11%	11%	9%	10%	10%	9%
qoq	-1.7%	-19.9%	26.4%	6.9%	-16.6%	4.5%	7.0%	-12.2%
yoy	-16.1%	-21.1%	-1.2%	6.4%	-9.8%	17.7%	-0.4%	-18.2%
Rest of the World	9.6	8.4	9.2	9.7	8.8	9.4	8.9	8.5
% contribution	7.5%	7.3%	6.4%	6.6%	5.9%	6.3%	6.0%	5.7%
qoq	-8.1%	-12.4%	8.8%	5.3%	-9.3%	6.9%	-5.0%	-4.6%
yoy	-24.3%	-24.0%	-11.7%	-7.8%	-9.0%	11.1%	-3.0%	-12.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue by Industry Verticals								
BFSI	22.5	20.9	25.4	25.2	26.5	28.4	29.8	30.6
% contribution	17.5%	18.1%	17.7%	17.2%	17.8%	19.1%	20.1%	20.5%
qoq	-0.4%	-6.9%	21.3%	-0.8%	5.0%	7.4%	5.0%	2.5%
yoy	6.5%	-3.2%	13.6%	11.6%	17.7%	35.8%	17.5%	21.4%
Energy & Utilities	19.1	16.5	21.2	22.1	21.2	21.0	20.6	22.2
% contribution	14.9%	14.3%	14.8%	15.1%	14.3%	14.1%	13.9%	14.9%
qoq	4.8%	-13.6%	28.4%	4.2%	-3.9%	-1.3%	-1.7%	7.7%
yoy	1.8%	-5.3%	20.0%	21.1%	11.1%	26.9%	-2.8%	0.5%
Lifesciences	30.0	28.0	32.0	31.6	31.5	29.2	29.5	26.2
% contribution	23.4%	24.2%	22.3%	21.6%	21.2%	19.6%	19.9%	17.6%
qoq	-0.9%	-6.9%	14.3%	-1.1%	-0.4%	-7.4%	1.3%	-11.1%
yoy	-13.9%	0.8%	9.7%	4.3%	4.9%	4.3%	-7.7%	-17.0%
Manufacturing	56.8	50.2	64.8	67.5	69.4	70.2	68.4	70.2
% contribution	44.20%	43.40%	45.20%	46.10%	46.70%	47.20%	46.10%	47.10%
qoq	8.8%	-11.6%	29.2%	4.1%	2.8%	1.2%	-2.6%	2.7%
yoy	21.9%	2.6%	28.8%	29.4%	22.3%	40.0%	5.5%	4.1%
Business & Technology Transformation	47.6	42.7	52.6	53.4	57.4	59.4	62.6	63.5
% contribution	37.1%	36.9%	36.7%	36.5%	38.6%	39.9%	42.2%	42.6%
qoq	8.8%	-10.5%	23.4%	1.5%	7.3%	3.5%	5.5%	1.4%
yoy	22.8%	9.2%	30.7%	22.1%	20.4%	39.2%	19.0%	18.9%
Enterprise Solutions	55.3	47.4	59.7	59.9	59.7	56.1	52.1	53.4
% contribution	43.1%	41.0%	41.6%	40.9%	40.2%	37.7%	35.1%	35.8%
qoq	0.4%	-14.4%	25.9%	0.4%	-0.2%	-6.1%	-7.1%	2.5%
yoy	-5.3%	-16.2%	8.1%	8.6%	7.9%	18.4%	-12.7%	-10.9%
Cloud & Base Services	25.4	25.5	31.1	33.1	31.5	31.5	31.5	32.2
% contribution	19.8%	22.1%	21.7%	22.6%	21.2%	21.2%	21.2%	21.6%
qoq	4.1%	0.5%	21.8%	6.3%	-4.8%	0.1%	-0.3%	2.4%
yoy	5.9%	27.7%	28.9%	35.5%	23.9%	23.5%	1.1%	-2.7%

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Account				
Y/E Mar	FY22	FY23	FY24E	FY25E
Revenue in USD mn	534	595	700	808
Growth (%)	11.3%	11.4%	17.69%	15.4%
Net sales	41,304	47,948	57,413	67,063
Growth (%)	16.2%	16.1%	19.74%	16.8%
Consumption of materials	-	-	-	-
Staff Expenses	23,689	28,131	33,500	40,156
Other operating expenses	11,214	14,612	15,609	16,449
Total Expenditure	34,902	42,743	49,108	56,605
EBITDA	6,401	5,205	8,305	10,458
EBITDA Margin	15.50%	10.85%	14.46%	15.59%
Depreciation	765	823	1,320	1,542
Operating profit	5,636	4,382	6,984	8,915
Other income	662	228	645	670
EBIT	6,298	4,610	7,629	9,585
Interest	130	186	159	232
Exceptional items	-	-	-	-
Profit before tax	6,168	4,424	7,470	9,353
Tax	1,530	1,108	1,980	2,479
Share in profit of associate cos	-	-	-	-
Minority interest	-	-	-	-
Reported net profit	4,638	3,316	5,491	6,875
EO Items	-	-	-	-
Adjusted net profit	4,638	3,316	5,491	6,875
Share O/s mn	278	278	278	278
Adj. EPS Rs	16.7	11.9	19.8	22.9

Cash Flow Statement				
Y/E Mar	FY22	FY23	FY24E	FY25E
PBT	6,168	4,424	7,470	9,353
Non-cash adjustments	233	780	834	1,104
Changes in working capital	(2,436)	914	(721)	(1,070)
Tax Paid	(1,828)	(1,397)	(2,090)	(2,598)
Cashflow from operations	2,137	4,721	5,494	6,790
Capital expenditure	(1,043)	(1,198)	(1,306)	(1,542)
Change in investments	(2,704)	2,782	741	-
Other investing cashflow	1,488	3	638	662
Cashflow from investing	(2,260)	1,587	72	(881)
Issue of equity	4	(9)	-	-
Issue/repay debt	-	-	-	-
Interest Paid	(130)	(186)	(159)	(232)
Increase / (Decrease) in Loan Funds	-	-	-	-
Dividends paid	(1,109)	(1,110)	(1,665)	(1,526)
Other financing cashflow	(89)	(249)	13	14
Cashflow from financing	(1,323)	(1,555)	(1,811)	(1,745)
Change in cash & cash eq	(1,446)	4,753	3,756	4,164
Opening cash & cash eq	5,274	3,828	5,535	12,336
Closing cash & cash eq	3,828	8,581	9,291	16,501
Closing cash & Bank Bal.	4,750	9,447	10,157	17,367
Free cash flow to firm	1,094	3,523	4,188	5,247

Source: Arihant Research, Company Filings

Key Financials

Balance Sheet				
Y/E Mar	FY22	FY23	FY24E	FY25E
APPLICATION OF FUNDS :				
Non Current Assets	9,500	10,175	9,584	9,761
Fixed Assets	1,562	1,561	1,612	1,612
Capital work in progress	17	65	-	-
Goodwill & other Intangibles	4,568	4,896	4,896	4,896
Noncurrent investment	552	741	-	-
Deferred tax assets	1,391	1,663	1,806	1,962
Long term loans and advances	162	273	286	301
Other non-current assets	1,249	976	983	991
Current Assets	24,333	21,698	30,004	36,063
Current investment	7,861	4,890	4,890	4,890
Inventories	-	-	-	-
Sundry debtors	8,488	9,071	9,909	11,574
Cash and bank	3,828	5,535	12,336	16,501
Short loans and advances	-	-	-	-
Others current assets	4,156	2,201	2,869	3,098
Total Assets	33,833	31,873	39,588	45,825
SOURCES OF FUNDS :				
Share Capital	559.0	549.7	549.7	549.7
Reserves	25,272	23,933	30,804	36,153
Total Shareholders Funds	25,831	24,483	31,354	36,703
Minority interest	-	-	-	-
Non-Current Liabilities	1,404	1,150	1,212	1,279
Long term borrowings	-	-	-	-
Deferred tax liability	-	-	-	-
Other long term liabilities	912	662	675	689
Long-term provisions	492	487	536	590
Current Liabilities	6,599	6,240	7,022	7,844
Short term borrowings	-	-	-	-
Trade payables	2,095	2,313	2,769	3,235
Other current liabilities	4,108	3,288	3,582	3,904
Short term provisions	396	639	671	704
Total Equity & Liabilities	33,833	31,873	39,588	45,825
Ratios				
Y/E Mar	FY22	FY23	FY24E	FY25E
PER SHARE				
EPS INR	16.7	11.9	19.8	22.9
CEPS INR	19.5	14.9	24.5	28.0
Book Value INR	93.1	88.2	113.0	132.3
VALUATION				
EV / Net Sales	1.5	1.3	0.9	0.7
EV / EBITDA	9.4	11.8	6.6	4.8
P / E Ratio	15.4	21.6	13.0	11.3
P / BV Ratio	2.8	2.9	2.3	2.0
GROWTH YOY%				
Sales Growth	16.2	16.1	19.7	7.8
EBITDA Growth	20.9	(18.7)	59.6	16.2
Net Profit Growth	44.5	(28.5)	65.6	15.6
Gross Fixed Asset Growth	15.9	15.9	18.9	18.6
PROFITABILITY				
Gross Profit/ Net sales (%)	42.6	41.3	41.7	40.1
EBITDA / Net Sales (%)	15.5	10.9	14.5	15.6
EBIT / Net sales(%)	13.6	9.1	12.2	13.3
NPM / Total income (%)	11.2	6.9	9.6	10.3
ROE (%)	18.0	13.5	17.5	18.7
ROCE (%)	23.1	18.0	23.4	25.2
Tax / PBT %	24.8	25.1	26.5	26.5

Source: Arian Research, Company Filings

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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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