

India

ADD (no change)

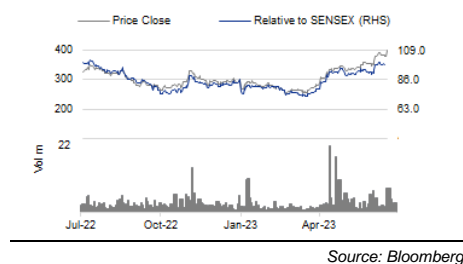
Consensus ratings*: Buy 8 Hold 4 Sell 0

Current price: Rs402
 Target price: ▲ Rs445
 Previous target: Rs318
 Up/downside: 10.7%
 InCred Research / Consensus: 16.1%

Reuters:
 Bloomberg: BSOFT IN
 Market cap: US\$1,525m
 Rs110,759m
 Average daily turnover: US\$12.1m
 Rs880.5m
 Current shares o/s: 279.6m
 Free float: 59.0%
 *Source: Bloomberg

Key changes in this note

- Expect 6.5% US\$ revenue CAGR over FY23-25F.
- Expect 18% EBIT growth in FY25F.
- Expect 19% PAT growth in FY25F.



Price performance	1M	3M	12M
Absolute (%)	14.0	48.3	23.4
Relative (%)	9.9	36.8	5.9

Major shareholders	% held
Axis Small Cap fund	5.5
HSBC Small Cap Fund	4.2
Aditya Birla Sunlife Digital India	3.2



Analyst(s)



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Birlasoft

Say:Do ratio is improving

- Operating performance better than expected. Deal win could have been better.
- Management confident of sustaining the current EBITDA margin profile.
- Margin beat-led EPS upgrade raises our target price to Rs444 from Rs318.

Doing more than what it says

Birlasoft's (BSOFT IN) constant currency (CC)/US\$ 1QFY24 revenue growth, adjusted for Invacare settlement, at 1.4%/1.7% qoq was above our 0.9%/1.1% estimate, respectively. Although the optical adjusted EBITDA margin beat appears to be modest (~30bp), we highlight that the beat could be higher (~80bp) adjusting for the Invacare contract cost booked till May 2023. While we continue to believe that growth revival could be taxing this time, given the lack of sector-tailwinds witnessed post Covid-19, management's confidence of exiting FY24F with a 16%+ EBITDA margin appears to be high. Overall margin messaging is consistent with our Jun 2023 update ([link](#)) and provides material upside risk.

TCV impacted by a variety of factors; likely to improve from 2QFY24F

New deal and renewal TCV, down 29.8%/49% qoq and 28.6%/21.1% yoy to US\$80m/US\$146m, respectively, were weak and takes LTM TCV, including renewals, to US\$829m vs. US\$868m in 4QFY23 and US\$729m in 1QFY23. Management attributed weak deal wins to strong order inflow in the previous two quarters, and decision-making delay. Linking of sales incentive to margins in addition to revenue could also be one of the factors, in our view. Management highlighted that the deal pipeline remains healthy, and conversion could improve in the coming quarters.

Remains confident of sustaining 15%+ EBITDA margin

The adjusted EBITDA margin at 14.2% was 28bp above our estimate and management commentary suggests that 2QFY24F margin could be in a similar range as 1Q, despite the one-month impact of wage hike while 3QFY24F would have the residual impact. Commentary also suggests that senior leadership hiring is behind and the focus shift to execution is likely driving the confidence of exiting FY24F with a 16%+ EBITDA margin. This, coupled with continued cost optimization, offshoring, better contracting & risk management and tail account rationalization raises our average FY24F-25F EBITDA margin estimate by ~110bp to 15.2%.

Retain ADD rating with a higher target price of Rs445

While we largely retain our conservative 6.5% US\$ revenue CAGR estimate over FY23-25F, the material increase in EBITDA margin drives our target price higher. Increase in the implied target P/E to 19x (15x earlier) is driven by a corresponding increase in PAT growth and despite retaining our target PE/G multiple of ~1x FY25F EPS growth, as a provision of Rs1.5bn in FY23 distorts FY23-FY25F EPS CAGR. Strong cash generation, net cash of Rs47 per share, and healthy payout ratio supports our constructive view. Client-specific challenges and weak execution are key downside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	35,557	41,304	47,948	51,864	56,662
Operating EBITDA (Rsm)	5,292	6,401	5,205	7,635	8,902
Net Profit (Rsm)	3,208	4,638	3,316	5,394	6,416
Core EPS (Rs)	11.5	16.4	11.8	19.3	23.0
Core EPS Growth	41.7%	42.5%	(27.8%)	63.3%	19.0%
FD Core P/E (x)	35.00	24.56	34.04	20.85	17.52
DPS (Rs)	3.5	4.5	3.5	5.0	6.0
Dividend Yield	0.87%	1.12%	0.87%	1.24%	1.49%
EV/EBITDA (x)	19.33	16.11	19.81	13.01	10.63
P/FCFE (x)	21.07	80.41	45.25	26.04	19.51
Net Gearing	(45.8%)	(41.7%)	(39.9%)	(46.1%)	(53.5%)
P/BV (x)	5.20	4.43	4.61	3.95	3.38
ROE	15.8%	19.5%	13.2%	20.4%	20.8%
% Change In Core EPS Estimates				5.75%	9.39%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	1QFY24F	Var. (%)
Revenue (US\$ m)	153.6	148.6	3.4	149.1	3.0	150.7	1.9
Revenue (Rs m)	12,628	11,544	9.4	12,264	3.0	12,391	1.9
USD-INR realization	82.2	77.7	5.8	82.3	(0.0)	82.2	0.0
EBITDA	1,931	1,698	13.7	1,670	15.7	1,722	12.1
EBITDA Margin (%)	15.3	14.7	58 bp	13.6	168 bp	13.9	139 bp
EBIT	1,717	1,502	14.4	1,460	17.6	1,511	13.7
EBIT Margin (%)	13.6	13.0	59 bp	11.9	170 bp	12.2	141 bp
Depreciation	214	196	8.8	210	2.0	212	0.9
Net other income	98	122	(19.6)	-63	(256.6)	105	(6.6)
PBT	1,816	1,624	11.8	1,397	30.0	1,616	12.4
Provision for tax	440	417	5.7	276	59.8	407	8.1
% tax rate	24.3	25.7	(140 bp)	19.7	453 bp	25.2	(95 bp)
Net Profit	1,375	1,207	13.9	1,121	22.7	1,209	13.8
EPS (Rs)	4.9	4.3	13.9	4.0	22.7	4.3	13.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- Reported revenue was up 2.7% qoq and 3.6% yoy in CC terms. Adjusted for Invacare settlement (US\$2m), the revenue is up 1.4% qoq in CC terms. The sequential growth was aided by client-mining initiatives, ramp-up of some deals and growth in manufacturing and financial services (FSI) verticals.
- Clients spends are skewed towards cost efficiency, operational excellence and customer experience. Overall technology-related spending is likely to be healthy.
- Focus on execution, investments in capabilities and client-centric organization could drive the next phase of growth.
- Leadership hiring is largely over. New leadership team in ERP and infrastructure services could aid growth revival.
- FSI vertical's growth aided by exposure to resilient segments like payment, infrastructure lending, etc. The growth path is likely to continue.
- ERP business has bottomed out and could recover from the current levels. SAP, Oracle, and Infor are strong practices.
- The company is establishing a Generative AI Centre of Excellence in collaboration with Microsoft. Aims to accelerate adoption of Generative AI to deliver cutting-edge enterprise solutions across industries. The company is internally adopting AI across processes to drive efficiency. ~80% of hyperscaler cloud revenue will be from Microsoft in the medium term.
- FY24F effective tax rate to be at 25%.

Figure 2: Operating metrics trends

Operating trends	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Revenue (US\$ m)	128.4	136.9	143.4	146.4	148.6	148.8	148.4	149.1	153.6
Growth YoY (%)	5.9	18.4	20.0	18.7	15.7	8.7	3.5	1.8	3.4
Growth QoQ (%)	4.1	6.6	4.7	2.1	1.5	0.1	-0.3	0.5	3.0
Revenue (INR m)	9453.2	10116.9	10719.1	11014.4	11544.1	11920.8	12218.9	12263.9	12627.7
Growth YoY (%)	3.4	18.0	21.7	22.0	22.1	17.8	14.0	11.3	9.4
Growth QoQ (%)	4.7	7.0	6.0	2.8	4.8	3.3	2.5	0.4	3.0
EBIT Margin (%)	14.0	13.1	13.4	14.0	13.0	13.1	-1.1	11.9	13.6
US\$-INR realized rate	73.6	73.9	74.7	75.2	77.7	80.1	82.3	82.3	82.2
Headcount	11,508	12,065	11,945	12,204	12,565	12,758	12,530	12,193	12,235
Utilization (%)	85.0	85.8	85.4	85.2	82.5	82.4	84.0	84.8	84.9
LTM Attrition (%)	14.9	21.5	27.3	29.4	27.9	27.4	25.5	22.1	18.8
Geography (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Americas	80.7	82.2	82.9	82.2	84.9	84.1	83.7	85.3	84.0
Europe	11.8	10.5	10.7	11.2	9.2	9.6	10.3	9.0	10.1
ROW	7.5	7.3	6.4	6.6	5.9	6.3	6.0	5.7	6.0
Geography (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Americas	103.6	112.5	118.9	120.3	126.2	125.1	124.2	127.2	129.0
Europe	15.2	14.4	15.3	16.4	13.7	14.3	15.3	13.4	15.5
ROW	9.6	10.0	9.2	9.7	8.8	9.4	8.9	8.5	9.2
Geography YoY (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Americas	14.6	26.3	27.0	23.5	21.8	11.2	4.5	5.7	2.3
Europe	-16.1	-6.5	-1.2	6.4	-9.8	-0.6	-0.4	-18.2	13.5
ROW	-24.3	-9.9	-11.7	-7.8	-9.0	-6.2	-3.0	-12.0	5.1
Geography QoQ (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Americas	6.4	8.6	5.6	1.2	4.8	-0.8	-0.7	2.4	1.4
Europe	-1.7	-5.1	6.7	6.9	-16.6	4.5	7.0	-12.2	15.6
ROW	-8.1	3.8	-8.2	5.3	-9.3	6.9	-5.0	-4.6	8.4
Incremental revenue (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Americas	6.2	8.9	6.3	1.5	5.8	-1.0	-0.9	3.0	1.8

Europe	-0.3	-0.8	1.0	1.1	-2.7	0.6	1.0	-1.9	2.1
ROW	-0.9	0.4	-0.8	0.5	-0.9	0.6	-0.5	-0.4	0.7
New deal wins (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Order intake	94	104	121	125	112	138	102	114	80
QoQ (%)	-42.0	10.6	16.3	3.3	-10.4	23.2	-26.1	11.8	-29.8
YoY (%)	5.6	-13.3	116.1	-22.8	19.1	32.7	-15.7	-8.8	-28.6
TTM order intake	432	416	481	444	462	496	477	466	434
Clients (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	30.5	29.7	29.3	29.9	30.7	31.1	31.7	32.8	33.3
Top 6-10	13.9	15.5	16.2	15.8	16.3	16.1	16.2	15.9	16.3
Top 11-20	16.0	16.0	15.6	15.6	16.1	16.5	16.2	15.2	14.3
Non-top 20	39.6	38.8	38.9	38.7	36.9	36.3	35.9	36.1	36.1
Clients (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	39.2	40.7	42.0	43.8	45.6	46.3	47.0	48.9	51.1
Top 6-10	17.8	21.2	23.2	23.1	24.2	24.0	24.0	23.7	25.0
Top 11-20	20.5	21.9	22.4	22.8	23.9	24.6	24.0	22.7	22.0
Non-top 20	50.8	53.1	55.8	56.7	54.8	54.0	53.3	53.8	55.4
Clients YoY (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	5.6	10.3	6.9	8.2	16.5	13.8	12.0	11.7	12.1
Top 6-10	23.7	50.5	60.7	52.5	35.7	12.9	3.5	2.5	3.4
Top 11-20	27.4	31.6	27.3	18.7	16.5	12.1	7.5	-0.8	-8.2
Non-top 20	-5.1	10.7	15.8	16.9	7.8	1.7	-4.5	-5.0	1.1
Clients QoQ (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	-3.2	3.8	3.3	4.2	4.2	1.4	1.7	4.0	4.6
Top 6-10	17.7	18.9	9.5	-0.4	4.7	-1.1	0.4	-1.4	5.6
Top 11-20	6.8	6.6	2.1	2.1	4.8	2.6	-2.1	-5.7	-3.1
Non-top 20	4.9	4.5	5.0	1.6	-3.2	-1.5	-1.4	1.0	3.0
Incremental revenue (US\$ m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Top 5	-1.3	1.5	1.4	1.8	1.8	0.7	0.8	1.9	2.2
Top 6-10	2.7	3.4	2.0	-0.1	1.1	-0.3	0.1	-0.3	1.3
Top 11-20	1.3	1.4	0.5	0.5	1.1	0.6	-0.5	-1.4	-0.7
Non-top 20	2.4	2.3	2.7	0.9	-1.8	-0.8	-0.7	0.5	1.6
Client metrics	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Active clients	291	280	285	296	300	301	299	288	285
Revenue per active client	1.67	1.81	1.87	1.88	1.92	1.95	1.98	2.07	2.10
US\$ 1 m+	77	76	77	80	82	76	83	83	86
US\$ 5 m+	22	20	21	25	25	27	24	26	27
US\$ 10 m+	10	12	12	13	13	14	13	13	13
Per employee analysis	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Revenue (US\$ m) - TTM	486.8	508.1	532.0	555.1	575.3	587.2	592.2	594.9	599.9
Employees (average TTM)	10,742	11,256	11,642	11,931	12,195	12,368	12,514	12,512	12,429
Revenue per employee (TTM)	45,317	45,141	45,696	46,528	47,176	47,477	47,322	47,548	48,266

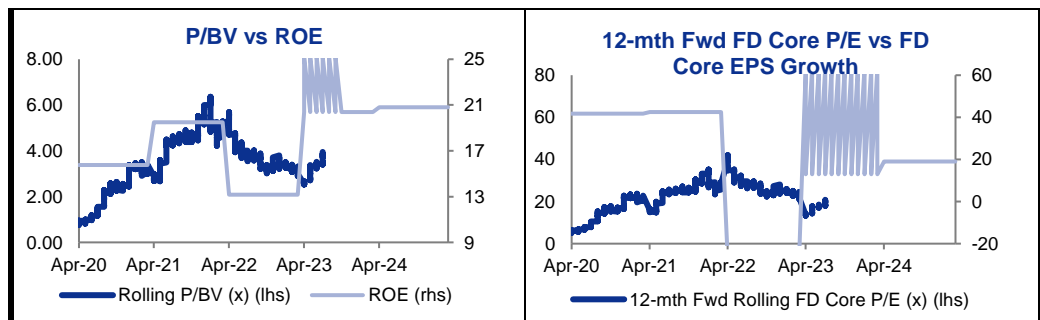
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F		
	New	Old	% change	New	Old	% change
US\$ revenue	626	623	0.6	675	671	0.6
Revenue	51,864	51,692	0.3	56,662	56,343	0.6
EBIT	6,757	6,267	7.8	7,988	7,139	11.9
EBIT Margin (%)	13.0	12.1	91 bp	14.1	12.7	143 bp
Net PAT	5,394	5,091	5.9	6,416	5,854	9.6
EPS (Rs)	19.3	18.2	5.7	23.0	21.0	9.4

SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	35,557	41,304	47,948	51,864	56,662
Gross Profit	14,373	17,614	19,817	20,909	23,067
Operating EBITDA	5,292	6,401	5,205	7,635	8,902
Depreciation And Amortisation	(804)	(765)	(823)	(878)	(914)
Operating EBIT	4,489	5,636	4,382	6,757	7,988
Financial Income/(Expense)	59	532	42	431	568
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	4,548	6,168	4,424	7,188	8,555
Exceptional Items					
Pre-tax Profit	4,548	6,168	4,424	7,188	8,555
Taxation	(1,340)	(1,530)	(1,108)	(1,794)	(2,139)
Exceptional Income - post-tax					
Profit After Tax	3,208	4,638	3,316	5,394	6,416
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,208	4,638	3,316	5,394	6,416
Recurring Net Profit	3,208	4,638	3,316	5,394	6,416
Fully Diluted Recurring Net Profit	3,208	4,638	3,316	5,394	6,416

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	5,292	6,401	5,205	7,635	8,902
Cash Flow from Invt. & Assoc.					
Change In Working Capital	845	(2,563)	(800)	(914)	(399)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	108				
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(667)	(1,784)	(1,315)	(1,794)	(2,139)
Cashflow From Operations	5,579	2,055	3,090	4,927	6,363
Capex	(249)	(638)	(577)	(600)	(600)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4,196)	(2,429)	3,094	600	737
Cash Flow From Investing	(4,444)	(3,067)	2,517		137
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(554)	(1,111)	(5,994)	(1,398)	(1,677)
Preferred Dividends					
Other Financing Cashflow	(415)	(357)	(368)	(169)	(169)
Cash Flow From Financing	(969)	(1,467)	(6,362)	(1,567)	(1,846)
Total Cash Generated	165	(2,479)	(755)	3,359	4,654
Free Cashflow To Equity	5,330	1,416	2,512	4,327	5,763
Free Cashflow To Firm	1,134	(1,012)	5,607	4,926	6,500

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	10,983	11,689	10,425	13,785	18,438
Total Debtors	6,318	8,488	9,071	10,231	10,867
Inventories					
Total Other Current Assets	3,752	4,156	2,201	2,201	2,201
Total Current Assets	21,053	24,333	21,698	26,217	31,506
Fixed Assets	2,466	2,601	2,390	2,112	1,798
Total Investments	353	703	1,014	1,014	1,014
Intangible Assets	4,581	4,673	5,034	5,034	5,034
Total Other Non-Current Assets	1,492	1,524	1,737	1,737	1,737
Total Non-current Assets	8,892	9,500	10,175	9,897	9,583
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,318	2,095	2,313	2,558	2,794
Other Current Liabilities	5,026	4,504	3,927	3,927	3,927
Total Current Liabilities	6,343	6,599	6,240	6,485	6,722
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,802	1,404	1,150	1,150	1,150
Total Non-current Liabilities	1,802	1,404	1,150	1,150	1,150
Total Provisions					
Total Liabilities	8,145	8,003	7,390	7,635	7,871
Shareholders Equity	21,799	25,831	24,483	28,479	33,218
Minority Interests					
Total Equity	21,799	25,831	24,483	28,479	33,218

Key Ratios

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	8.0%	16.2%	16.1%	8.2%	9.3%
Operating EBITDA Growth	36.8%	21.0%	(18.7%)	46.7%	16.6%
Operating EBITDA Margin	14.9%	15.5%	10.9%	14.7%	15.7%
Net Cash Per Share (Rs)	35.43	37.86	34.79	46.94	63.59
BVPS (Rs)	77.36	90.75	87.25	101.87	118.82
Gross Interest Cover	34.41	43.30	23.57	39.97	47.25
Effective Tax Rate	29.5%	24.8%	25.1%	25.0%	25.0%
Net Dividend Payout Ratio	30.7%	27.6%	29.6%	25.9%	26.1%
Accounts Receivables Days	74.20	65.42	66.83	67.92	67.95
Inventory Days					
Accounts Payables Days	27.75	26.29	28.60	28.71	29.07
ROIC (%)	22.7%	34.6%	22.1%	35.7%	40.4%
ROCE (%)	14.8%	17.1%	12.7%	18.7%	19.0%
Return On Average Assets	11.1%	13.3%	10.0%	14.9%	15.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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