



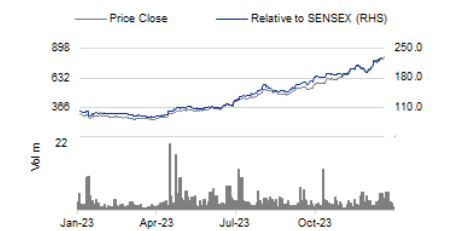
India

HOLD (previously ADD)

Consensus ratings*: Buy 10 Hold 3 Sell 1	
Current price:	Rs823
Target price: ▲	Rs838
Previous target:	Rs600
Up/downside:	1.8%
InCred Research / Consensus:	21.5%
Reuters:	BIRS.NS
Bloomberg:	BSOFT IN
Market cap:	US\$2,729m Rs226,859m
Average daily turnover:	US\$18.4m Rs1529.9m
Current shares o/s:	279.9m
Free float:	59.0%
*Source: Bloomberg	

Key changes in this note

- Expect 12% revenue CAGR over FY24F-26F.
- Expect 19.3% EBIT CAGR over FY24F-26F.
- Expect 20.5% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.0	56.3	168.7
Relative (%)	11.1	40.9	127.7

Major shareholders	% held
Axis Small Cap fund	5.4
HSBC Small Cap Fund	4.0
Aditya Birla Sunlife Small Cap Fund	1.6

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Birlasoft

Like the business but not entry valuation

- 3QFY24 revenue beat was aided by short-term projects. Deal ramp-up could drive a better exit momentum in 4QFY24F.
- EBITDA margin could be at the upper end of 15.5-17% range in medium term.
- Downgrade our rating to HOLD (from ADD) with a higher TP of Rs838.

Earnings summary

Birlasoft's 3QFY24 revenue beat, though skewed towards the infrastructure service line, was aided by ramp-up of deals, short-term projects and change requests offset by the furlough impact while management commentary suggests a better 4QFY24F led by reversal of furlough and deal signings. Better 4QFY24F exit momentum, potential M&A-led uptick, coupled with the prospects of order-booking improving, and account mining led by change in the incentive structure, increases our FY25F revenue growth assumption and also cushions the margin expansion thesis. That said, rich entry valuation, after the recent stock price rally, based on FY26F earnings, warrants some caution. Consequently, we downgrade our rating on Birlasoft to HOLD with a higher TP of Rs838 (vs. Rs600 earlier).

New deal wins soft led by seasonality but may improve in 4QFY24F

New deal TCV was down 43.7% qoq and 7.8% yoy to US\$94m while TCV, including renewals, at US\$218m, was down 19.6% qoq and 5.6% yoy. The renewal engine seems to be firing well (up 27.8% yoy in 9MFY24 and 42.5% yoy on a TTM basis) even as net new deals are down 3.1%/4.6%, respectively, and a reason for an about flat LTM TCV at US\$921m vs. US\$934m in 2QFY24 and US\$804m in 3QFY23. Commentary suggests the weak deal win was led by a delay in decision-making, seasonality and could recover in 4QFY24F. However, it remains a key monitorable and critical to consensus growth assumption. We increase our average FY24F-26F US\$ revenue CAGR by 200bp to 12%.

Margin execution ahead of guidance and is likely to sustain

The EBIT margin beat (83bp; 14.4%) was driven by growth leverage, moderation in sub-contractor expenses, utilization improvement (up 60bp qoq at 87.1%) and higher offshore revenue mix (up 300bp qoq at 54.2%), despite the residual two-month impact of a wage hike. Management reiterated its medium-term 15.5-17% EBITDA margin guidance, despite investments in domain capabilities and processes, driven by the levers mentioned earlier. We raise our average FY25F-26F EBITDA margin assumption by 40bp to 16.7%.

Downgrade rating to HOLD with revised target price of Rs838

We model a 12% US\$ revenue CAGR over FY24F-26F & a 20.5% PAT (Rs) CAGR and increase our target PE/G multiple, to ~1.3 vs. 1.15x earlier, to factor in improved execution. Strong cash generation, net cash of Rs60/share and a healthy payout ratio provides cushion, in our view, but the recent rally in share price leaves a limited margin of safety for any client-specific challenges and weak execution. Sharp increase in net new deal wins and/or M&A-led growth is an upside risk to our estimates.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	41,304	47,948	52,988	60,149	68,971
Operating EBITDA (Rsm)	6,401	6,715	8,359	9,852	11,725
Net Profit (Rsm)	4,638	4,826	6,072	7,240	8,812
Core EPS (Rs)	16.4	17.1	21.7	25.9	31.5
Core EPS Growth	42.5%	4.6%	26.6%	19.2%	21.7%
FD Core P/E (x)	50.24	48.03	37.93	31.81	26.14
DPS (Rs)	4.5	3.5	5.5	6.5	8.0
Dividend Yield	0.55%	0.43%	0.67%	0.79%	0.97%
EV/EBITDA (x)	34.71	33.07	25.78	21.33	17.39
P/FCFE (x)	164.49	57.92	38.80	35.81	31.01
Net Gearing	(41.7%)	(39.9%)	(51.0%)	(58.4%)	(64.3%)
P/BV (x)	9.07	9.47	7.94	6.69	5.62
ROE	19.5%	19.2%	22.7%	22.8%	23.4%
% Change In Core EPS Estimates			5.63%	8.28%	9.72%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	3QFY24F	Var. (%)
Revenue (US\$ m)	161.3	148.4	8.7	158.3	1.9	159.9	0.9
Revenue (Rs m)	13,430	12,219	9.9	13,099	2.5	13,318	0.8
USD-INR realization	83.3	82.3	1.1	82.7	0.6	83.3	(0.1)
EBITDA	2,143	1,584	35.3	2,071	3.4	2,024	5.9
EBITDA margin (%)	16.0	13.0	299 bp	15.8	14 bp	15.2	76 bp
EBIT	1,932	1,374	40.7	1,856	4.1	1,806	7.0
EBIT margin (%)	14.4	11.2	315 bp	14.2	22 bp	13.6	83 bp
Depreciation	211	210	0.3	215	(2.1)	219	(3.7)
Net other income	222	68	226.5	99	124.9	63	252.6
PBT	2,154	1,442	49.4	1,955	10.2	1,869	15.3
Provision for tax	544	95	470.7	504	7.8	471	15.5
% tax rate	25.2	6.6	1863 bp	25.8	(56 bp)	25.2	4 bp
Net Profit	1,611	1,347	19.6	1,450	11.1	1,398	15.2
EPS (Rs)	5.7	-0.6	19.6	5.2	11.1	5.0	14.8

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 2: Operating metrics trend

Operating trends	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Revenue (US\$m)	143.4	146.4	148.6	148.8	148.4	149.1	153.6	158.3	161.3
Growth yoy (%)	20.0	18.7	15.7	8.7	3.5	1.8	3.4	6.4	8.7
Growth qoq (%)	4.7	2.1	1.5	0.1	-0.3	0.5	3.0	3.1	1.9
Revenue (Rsm)	10,719	11,014	11,544	11,921	12,219	12,264	12,628	13,099	13,430
Growth yoy (%)	21.7	22.0	22.1	17.8	14.0	11.3	9.4	9.9	9.9
Growth qoq (%)	6.0	2.8	4.8	3.3	2.5	0.4	3.0	3.7	2.5
EBIT margin (%)	13.4	14.0	13.0	13.1	11.2	11.9	13.6	14.2	14.4
US\$-INR realized rate	74.7	75.2	77.7	80.1	82.3	82.3	82.2	82.7	83.3
Headcount	11,945	12,204	12,565	12,758	12,530	12,193	12,235	12,322	12,356
Utilization (%)	85.4	85.2	82.5	82.4	84.0	84.8	84.9	86.5	87.1
LTM Attrition (%)	27.3	29.4	27.9	27.4	25.5	22.1	18.8	15.0	12.6
Vertical (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFSI	17.7	17.2	17.8	19.1	20.1	20.5	20.7	21.1	20.6
Energy & Utilities	14.8	15.1	14.3	14.1	13.9	14.9	14.3	13.7	14.5
Lifesciences	22.3	21.6	26.5	25	26	24.5	24.4	24.0	23.9
Manufacturing	45.2	46.1	41.4	41.8	40	40.1	40.7	41.1	41.1
Vertical (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFSI	25.4	25.2	26.5	28.4	29.8	30.6	31.8	33.4	33.2
Energy & Utilities	21.2	22.1	21.2	21.0	20.6	22.2	22.0	21.7	23.4
Lifesciences	32.0	31.6	39.4	37.2	38.6	36.5	37.5	38.0	38.6
Manufacturing	64.8	67.5	61.5	62.2	59.4	59.8	62.5	65.1	66.3
Vertical yoy (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFSI	13.6	11.6	17.7	14.7	17.5	21.4	20.2	17.5	11.4
Energy & Utilities	20.0	21.1	11.1	7.2	-2.8	0.5	3.4	3.4	13.4
Lifesciences	9.7	4.3	31.1	12.3	20.7	15.5	-4.8	2.1	-0.1
Manufacturing	28.8	29.4	8.4	4.7	-8.4	-11.4	1.6	4.6	11.7
Vertical qoq (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFSI	2.4	-0.8	5.0	7.4	5.0	2.5	4.0	5.1	-0.5
Energy & Utilities	8.4	4.2	-3.9	-1.3	-1.7	7.7	-1.1	-1.3	7.8
Lifesciences	-3.5	-1.1	24.5	-5.5	3.7	-5.3	2.6	1.4	1.5
Manufacturing	9.1	4.1	-8.8	1.1	-4.6	0.7	4.6	4.1	1.9
Incremental revenue (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
BFSI	0.6	-0.2	1.3	2.0	1.4	0.7	1.2	1.6	-0.2
Energy & Utilities	1.6	0.9	-0.9	-0.3	-0.4	1.6	-0.3	-0.3	1.7
Lifesciences	-1.2	-0.4	7.8	-2.2	1.4	-2.1	0.9	0.5	0.6
Manufacturing	5.4	2.7	-6.0	0.7	-2.8	0.4	2.7	2.5	1.2
New Deal wins (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Order intake	121	125	112	138	102	114	80	167	94
qoq (%)	16.3	3.3	-10.4	23.2	-26.1	11.8	-29.8	108.8	-43.7
yoy (%)	116.1	-22.8	19.1	32.7	-15.7	-8.8	-28.6	21.0	-7.8
TTM order intake	481	444	462	496	477	466	434	463	455
Clients (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	29.3	29.9	30.7	31.1	31.7	32.8	33.3	33.6	34.5
Top 6-10	16.2	15.8	16.3	16.1	16.2	15.9	16.3	17.4	17.5
Top 11-20	15.6	15.6	16.1	16.5	16.2	15.2	14.3	12.9	12.7
Non-top 20	38.9	38.7	36.9	36.3	35.9	36.1	36.1	36.1	35.3
Clients (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	42.0	43.8	45.6	46.3	47.0	48.9	51.1	53.2	55.6
Top 6-10	23.2	23.1	24.2	24.0	24.0	23.7	25.0	27.5	28.2
Top 11-20	22.4	22.8	23.9	24.6	24.0	22.7	22.0	20.4	20.5
Non-top 20	55.8	56.7	54.8	54.0	53.3	53.8	55.4	57.1	56.9
Clients yoy (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	6.9	8.2	16.5	13.8	12.0	11.7	12.1	14.9	18.3
Top 6-10	60.7	52.5	35.7	12.9	3.5	2.5	3.4	15.0	17.4
Top 11-20	27.3	18.7	16.5	12.1	7.5	-0.8	-8.2	-16.8	-14.8
Non-top 20	15.8	16.9	7.8	1.7	-4.5	-5.0	1.1	5.8	6.9
Clients qoq (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	3.3	4.2	4.2	1.4	1.7	4.0	4.6	4.0	4.6
Top 6-10	9.5	-0.4	4.7	-1.1	0.4	-1.4	5.6	10.0	2.5
Top 11-20	2.1	2.1	4.8	2.6	-2.1	-5.7	-3.1	-7.0	0.3

Non-top 20	5.0	1.6	-3.2	-1.5	-1.4	1.0	3.0	3.1	-0.4
Incremental revenue (US\$m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Top 5	1.4	1.8	1.8	0.7	0.8	1.9	2.2	2.0	2.5
Top 6-10	2.0	-0.1	1.1	-0.3	0.1	-0.3	1.3	2.5	0.7
Top 11-20	0.5	0.5	1.1	0.6	-0.5	-1.4	-0.7	-1.5	0.1
Non-top 20	2.7	0.9	-1.8	-0.8	-0.7	0.5	1.6	1.7	-0.2
Client metrics	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Active clients	285	296	300	301	299	288	285	278	272
Revenue per active client	1.87	1.88	1.92	1.95	1.98	2.07	2.10	2.19	2.29
US\$ 1 m+	77	80	82	76	83	83	86	85	83
US\$ 5 m+	21	25	25	27	24	26	27	27	26
US\$ 10 m+	12	13	13	14	13	13	13	11	11

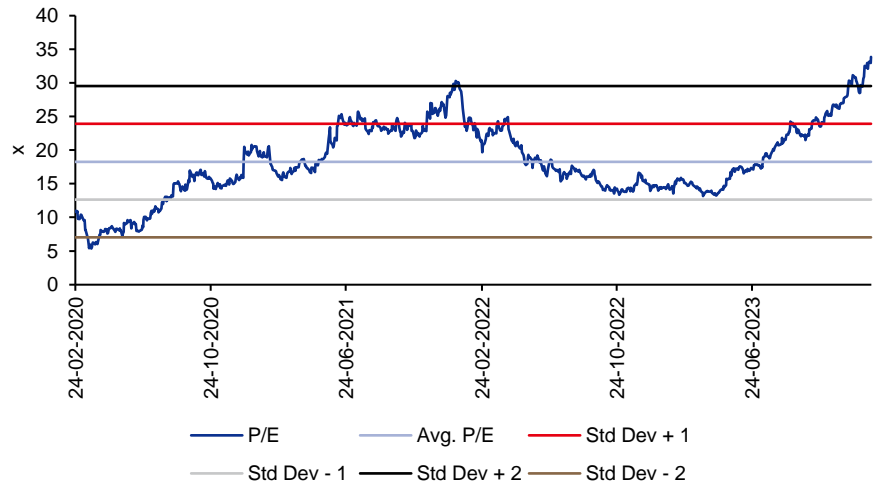
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Change in earnings estimate

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	639	640	-0.1	716	697	2.7	802	774	3.6
Revenue	52,988	52,849	0.3	60,149	58,569	2.7	68,971	66,559	3.6
EBIT	7,502	7,295	2.8	8,929	8,440	5.8	10,677	9,971	7.1
EBIT margin (%)	14.2	13.8	36 bp	14.8	14.4	43 bp	15.5	15.0	50 bp
Net PAT	6,072	5,748	5.6	7,240	6,686	8.3	8,812	8,031	9.7
EPS (Rs)	21.7	20.5	5.5	25.9	23.9	8.3	31.5	28.7	9.7

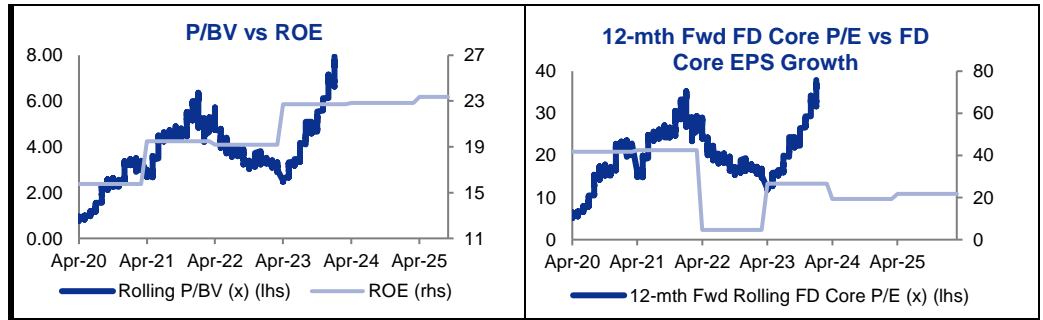
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Birlasoft trades at ~34x one-year forward P/E



SOURCE: BLOOMBERG, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	41,304	47,948	52,988	60,149	68,971
Gross Profit	17,614	19,817	22,023	24,709	28,623
Operating EBITDA	6,401	6,715	8,359	9,852	11,725
Depreciation And Amortisation	(765)	(823)	(856)	(924)	(1,048)
Operating EBIT	5,636	5,892	7,502	8,929	10,677
Financial Income/(Expense)	532	42	609	724	1,072
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	6,168	5,934	8,111	9,653	11,749
Exceptional Items					
Pre-tax Profit	6,168	5,934	8,111	9,653	11,749
Taxation	(1,530)	(1,108)	(2,039)	(2,413)	(2,937)
Exceptional Income - post-tax					
Profit After Tax	4,638	4,826	6,072	7,240	8,812
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,638	4,826	6,072	7,240	8,812
Recurring Net Profit	4,638	4,826	6,072	7,240	8,812
Fully Diluted Recurring Net Profit	4,638	4,826	6,072	7,240	8,812

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	6,401	6,715	8,359	9,852	11,725
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,563)	(800)	(65)	(757)	(1,112)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,784)	(1,315)	(2,039)	(2,413)	(2,937)
Cashflow From Operations	2,055	4,600	6,255	6,682	7,676
Capex	(638)	(577)	(300)	(250)	(250)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,429)	3,094	827	962	1,310
Cash Flow From Investing	(3,067)	2,517	527	712	1,060
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,111)	(5,994)	(1,540)	(1,820)	(2,240)
Preferred Dividends					
Other Financing Cashflow	(357)	(368)	(218)	(238)	(238)
Cash Flow From Financing	(1,467)	(6,362)	(1,758)	(2,058)	(2,478)
Total Cash Generated	(2,479)	755	5,024	5,337	6,259
Free Cashflow To Equity	1,416	4,022	5,955	6,432	7,426
Free Cashflow To Firm	(1,012)	7,117	6,781	7,394	8,736

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	11,689	10,425	15,449	20,786	27,045
Total Debtors	8,488	9,071	9,436	10,547	12,094
Inventories					
Total Other Current Assets	4,156	2,201	2,201	2,201	2,201
Total Current Assets	24,333	21,698	27,087	33,534	41,339
Fixed Assets	2,601	2,390	1,834	1,160	362
Total Investments	703	1,014	1,014	1,014	1,014
Intangible Assets	4,673	5,034	5,034	5,034	5,034
Total Other Non-Current Assets	1,524	1,737	1,737	1,737	1,737
Total Non-current Assets	9,500	10,175	9,619	8,945	8,147
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,095	2,313	2,613	2,966	3,401
Other Current Liabilities	4,504	3,927	3,927	3,927	3,927
Total Current Liabilities	6,599	6,240	6,541	6,894	7,329
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,404	1,150	1,150	1,150	1,150
Total Non-current Liabilities	1,404	1,150	1,150	1,150	1,150
Total Provisions					
Total Liabilities	8,003	7,390	7,690	8,043	8,478
Shareholders Equity	25,831	24,483	29,015	34,435	41,007
Minority Interests					
Total Equity	25,831	24,483	29,015	34,435	41,007

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	16.2%	16.1%	10.5%	13.5%	14.7%
Operating EBITDA Growth	21.0%	4.9%	24.5%	17.9%	19.0%
Operating EBITDA Margin	15.5%	14.0%	15.8%	16.4%	17.0%
Net Cash Per Share (Rs)	37.86	34.65	52.82	71.88	94.24
BVPS (Rs)	90.75	86.89	103.65	123.01	146.49
Gross Interest Cover	43.30	31.70	34.40	37.52	44.86
Effective Tax Rate	24.8%	18.7%	25.1%	25.0%	25.0%
Net Dividend Payout Ratio	27.6%	20.4%	25.4%	25.1%	25.4%
Accounts Receivables Days	65.42	66.83	63.74	60.63	59.91
Inventory Days					
Accounts Payables Days	26.29	28.60	29.03	28.73	28.80
ROIC (%)	34.6%	32.3%	39.6%	48.9%	58.1%
ROCE (%)	17.1%	18.5%	20.5%	20.7%	20.9%
Return On Average Assets	13.3%	14.6%	16.4%	16.9%	17.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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