

Healthy operational performance...

Birlasoft Ltd's (Birlasoft) dollar revenues increased 3.2% QoQ to US\$123.3 million, mainly led by healthy growth across verticals. The manufacturing vertical increased 3.7% QoQ, E&U up 3.2% QoQ, lifescience up 4.0% QoQ. EBITDA margin increased 48 QoQ (up 401 bps YoY) to 16.9%. Overall TCV for FY21 was at US\$888 million (up 33% YoY and book to bill ratio of 1.9x). Birlasoft recommended a dividend of ₹ 2.5/share.

Healthy deal wins, annuity revenues key growth drivers

Birlasoft is aiming to achieve a target of US\$1 billion in revenues in the next four years (implying a CAGR of 20%). The company aims to achieve this via organic (which we believe would be 14% CAGR) and inorganic revenues of US\$150-200 million. Birlasoft has significantly improved its annuity revenues from 60% in FY20 to 70% in FY21. Going forward, we expect the company to continue to improve annuity revenues, cross sell to clients and focus on niche verticals. This coupled with Birlasoft's focus on client mining (top 20 accounts up ~18% YoY in FY21), expansion in Europe & APAC, improving growth in top 30 accounts, healthy deal pipeline (up from US\$600 million to US\$1.2 billion), healthy order book (healthy mix of mid-size deal with potential to be growth drivers), increase in deal sizes, project ramp ups, reversal of discounts, focused ERP channel sales (with higher focus on cross selling digital) and anticipated higher net new growth (due to opening of US & Europe) bode well for revenue growth in coming years. Hence, we expect dollar revenues to increase at a CAGR of 13.6% over FY21-23E.

Margins to improve despite headwinds

Birlasoft reported an improvement in margins in Q4FY21 due to revenue growth (0.8%), higher billing (1.5%) and lower bad debt (1%) partially offset by higher wage hikes (2.1%) and higher recruitment (added 652 employees). Going forward, there are margin headwinds due to higher employee cost, lower utilisation and reskilling of employees. However, we expect the company to offset these headwinds with pyramid rationalisation, rationalisation of support staff & sub-contracting cost, higher offshoring and revenue growth. Hence, we expect margins to improve ~90 bps to 15.8% in FY21-23E. Also, we expect PAT to improve due to migration to the new tax regime.

Valuation & Outlook

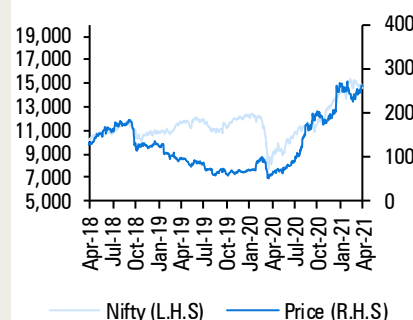
Improving client mining, healthy deal pipeline, cross selling opportunities, increase in deal sizes, project ramp ups, reversal of discounts and anticipated higher net new growth bode well for long term revenue growth. Further, robust margins and healthy cash balance (inorganic expansion or healthy dividend payout) prompt us to maintain **BUY** rating with a revised target price of ₹ 315 (18x PE on FY23E EPS) (earlier target price ₹ 310).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	7,401.3
Total Debt	-
Cash and Investments (₹ Crore)	1,098.3
EV (₹ Crore)	6,303.0
52 week H/L	284/71
Equity capital	55.5
Face value	2.0

Price Performance



Key Risk

- Deceleration in deal pipeline and digital technologies could impact revenues adversely
- The company has undertaken various cost rationalisation efforts to improve margins in long term. However, inability to realise intended cost savings could impact profitability adversely

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Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	2,551	3,291	3,556	4,086	4,704	15.0%
EBITDA	306	392	529	625	741	18.3%
EBITDA Margins (%)	12.0	11.9	14.9	15.3	15.8	
Net Profit	272	224	321	394	474	21.5%
EPS (₹)	13.4	8.1	11.6	14.2	17.1	
P/E	22.8	33.0	23.2	18.9	15.7	
RoNW (%)	15.9	11.9	14.7	16.5	18.0	
RoCE (%)	15.5	17.0	19.8	21.9	23.8	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit & loss statement (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	3,291	3,556	4,086	4,704
Growth (%)	29.0	8.0	14.9	15.1
COGS (employee expenses)	1,998	2,116	2,431	2,787
Other expenses	902	911	1,030	1,176
Total Operating Expenditure	2,899	3,027	3,461	3,963
EBITDA	392	529	625	741
Growth (%)	27.9	35.0	18.1	18.5
Depreciation	83	80	95	103
Other income (net)	27	6	20	25
PBT	336	455	550	662
Total Tax	112	134	157	189
PAT	224	321	394	474
Growth (%)	(4.7)	43.0	22.7	20.3
Diluted EPS (₹)	8.1	11.6	14.2	17.1
Growth (%)	(39.8)	44.0	22.7	20.3

Source: Company, ICICI Direct Research,

Exhibit 2: Cash flow statement (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit	224	321	550	662
Add: Depreciation	83	80	95	103
Others	174	5	(20)	(25)
Inc/(dec) in working capital	(88)	84	(78)	(96)
Taxes paid	(80)	(67)	(157)	(189)
CF from operating activities	312	558	390	456
(Inc)/dec in Fixed Assets	(54)	(25)	(69)	(80)
Others	8	(420)	33	38
CF from investing activities	(46)	(444)	(36)	(42)
Dividend paid & dividend tax	(100)	(55)	(194)	(221)
Others	(80)	(41)	(13)	(13)
CF from financing activities	(180)	(97)	(207)	(234)
Net Cash flow	86	17	147	180
Exchange difference	1	-	-	-
Opening Cash	542	1,026	1,043	1,190
Closing cash & Bank	630	1,043	1,190	1,370

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	55	55	55	55
Reserve and Surplus	1,837	2,124	2,325	2,577
Total Shareholders funds	1,892	2,180	2,380	2,632
Total Debt	-	-	-	-
Lease liability	114	100	100	100
Provisions	70	80	92	106
Other non current liabilities	-	-	-	-
Total Liabilities	2,076	2,360	2,572	2,838
Assets				
Property, plant and equipment	141	122	125	133
Goodwill	454	448	448	448
Intangibles	17	11	11	11
Right-of-use assets	139	118	89	58
Other non current assets	248	191	221	262
Cash & bank balance	630	1,043	1,190	1,370
Current Investments	33	55	55	55
Trade receivables	740	518	596	686
Unbilled revenue	74	114	130	150
Other financial assets	36	59	68	78
Other current assets	176	316	363	418
Total Current Assets	1,688	2,105	2,403	2,757
Trade payables	190	132	151	174
Lease liability	31	28	28	28
OCL & provisions	390	474	545	628
Total Current Liabilities	611	634	725	830
Net Current Assets	1,077	1,471	1,678	1,927
Application of Funds	2,076	2,360	2,572	2,838

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Diluted EPS	8.1	11.6	14.2	17.1
Cash EPS	11.1	14.4	17.6	20.8
BV	68	78	86	95
DPS	2.0	3.5	7.0	8.0
Cash Per Share	23	38	43	49
Operating Ratios (%)				
EBITDA margin	11.9	14.9	15.3	15.8
PBT Margin	10.2	12.8	13.5	14.1
PAT Margin	6.8	9.0	9.6	10.1
Debtor days	82	53	53	53
Unbilled days	8	12	12	12
Creditor days	21	14	14	14
Return Ratios (%)				
RoE	11.9	14.7	16.5	18.0
RoCE	17.0	19.8	21.9	23.8
RoIC	21.9	35.8	40.2	45.3
Valuation Ratios (x)				
P/E	33.0	23.2	18.9	15.7
EV / EBITDA	17.2	11.9	9.8	8.1
EV / Net Sales	2.0	1.8	1.5	1.3
Market Cap / Sales	2.2	2.1	1.8	1.6
Price to Book Value	3.9	3.4	3.1	2.8
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.7	1.6	1.6	1.6
Quick Ratio	1.7	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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