

# Birlasoft

Refer to important disclosures at the end of this report

## Robust operating performance; upgrade to Buy

- Birlasoft reported in-line revenue performance in Q4, while EBITM surprised positively. Revenue grew 3.2% QoQ to USD123.3mn (3.0% CC). Despite the impact of salary hike, EBITM expanded 80bps QoQ to 14.9% and came in 220bps ahead of our expectations.
- Deal intake remained strong in Q4, with a TCV of USD325mn (net new USD162mn), taking total deal intake to USD888mn for FY21 (up ~33% YoY). With strong deal intake and a healthy deal pipeline (USD1.2bn vs. USD0.6bn in Q4FY20), Birlasoft expects acceleration in revenue growth, and is confident of delivering double-digit revenue growth in FY22.
- Revenue growth was broad-based and was led by Lifesciences (4% QoQ), Manufacturing (3.7%), Energy & Utilities (3.2%) and BFSI (1%). Management expects all verticals to register growth in FY22, with Manufacturing and Lifesciences verticals leading growth.
- We raise FY22E/23E EPS by 4.2%/2.7%, factoring in Q4 performance beat, and increase revenue/margin assumptions as well. With improving earnings predictability (annuity revenue increased to 70% in Q4FY21 from 60% in Q1FY21), strong earnings trajectory (~27% EPS CAGR over FY21-23E) and robust cash generation, we upgrade the stock to Buy with a revised TP of Rs330 at 18x FY23E EPS (earlier 16x with a TP of Rs290).

**What we liked?** Strong deal intake of USD325mn in Q4 (USD162mn net new) and pipeline (USD1.2bn vs. USD0.6bn in Q4FY20), broad-based growth and EBIT beat (80bps expansion QoQ).

**What we did not like?** Continued weakness in SAP business.

**Broad-based revenue growth; FY22 revenues to grow in double-digits:** Q4 revenue grew 3.2% QoQ to USD123.3mn and growth was broad-based. Revenue growth was led by Top - 20 clients (4.9% QoQ), in line with the company's strategy of focusing on top strategic accounts and expand relationships. Client metrics continue to reflect steady improvement in underlying trends, with the number of US\$5mn+ clients increasing to 22 from 21 in Q3FY21 and 17 in Q4FY20. Management indicated that the tail account rationalization program is over and expects stability in active clients (active clients declined by 4 QoQ/87 YoY). Management remains confident on accelerating revenue growth and delivering double-digit growth in FY22, implying at least 2.7% CQGR, driven by: 1) strong deal intake (USD888mn in FY21, up ~33% YoY); 2) robust deal pipeline (USD1.2bn vs. USD0.6bn in Q4FY20) and improving win rates; 3) growing annuity revenue (70% in Q4); and 4) broad-based demand.

**EBITDAM to sustain at 15% with upward bias in FY22:** Q4 EBITDAM expanded by 50bps QoQ to 16.9% on revenue growth (80bps), lower bad debt provisions (100bps) and higher billable days (150bps), offset in part by wage hikes (210bps) and higher recruitment costs (50bps). Management expects EBITDAM to sustain at 15% with an upward bias in FY22 as it anticipates headwinds on account of wage hike and investments in capability building and talent, which would be partially offset by revenue growth-led operating leverage, higher offshoring and other efficiencies.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 11\)](#)

### Financial Snapshot (Consolidated)

| (Rs mn)           | FY19   | FY20   | FY21   | FY22E  | FY23E  |
|-------------------|--------|--------|--------|--------|--------|
| Revenue           | 33,052 | 32,910 | 35,557 | 40,763 | 47,395 |
| EBITDA            | 3,203  | 3,869  | 5,292  | 6,309  | 7,430  |
| EBITDA Margin (%) | 9.7    | 11.8   | 14.9   | 15.5   | 15.7   |
| APAT              | 2,310  | 2,243  | 3,209  | 4,247  | 5,158  |
| EPS (Rs)          | 9.1    | 8.1    | 11.5   | 15.3   | 18.6   |
| EPS (% chg)       | (12.8) | (3.6)  | 40.6   | 32.4   | 21.4   |
| ROE (%)           | 13.1   | 12.4   | 15.8   | 18.2   | 19.4   |
| P/E (x)           | 32.1   | 33.3   | 23.7   | 17.9   | 14.7   |
| EV/EBITDA (x)     | 21.5   | 17.6   | 12.3   | 9.8    | 7.9    |
| P/BV (x)          | 4.3    | 3.9    | 3.5    | 3.1    | 2.7    |

Source: Company, Emkay Research

|                                       |                                |
|---------------------------------------|--------------------------------|
| <b>CMP</b>                            | <b>Target Price</b>            |
| <b>Rs 267</b><br>as of (May 22, 2021) | <b>Rs 330 (▲)</b><br>12 months |
| <b>Rating</b>                         | <b>Upside</b>                  |
| <b>BUY (▲)</b>                        | <b>23.5 %</b>                  |

### Change in Estimates

|                         |         |
|-------------------------|---------|
| EPS Chg FY22E/FY23E (%) | 4.2/2.7 |
| Target Price change (%) | 13.8    |
| Target Period (Months)  | 12      |
| Previous Reco           | HOLD    |

### Emkay vs Consensus

|                         | EPS Estimates |       |
|-------------------------|---------------|-------|
|                         | FY22E         | FY23E |
| Emkay                   | 14.9          | 18.1  |
| Consensus               | 13.4          | 16.0  |
| Mean Consensus TP (12M) | Rs 305        |       |

### Stock Details

|                              |           |
|------------------------------|-----------|
| Bloomberg Code               | BSOFT IN  |
| Face Value (Rs)              | 2         |
| Shares outstanding (mn)      | 278       |
| 52 Week H/L                  | 285 / 70  |
| M Cap (Rs bn/USD bn)         | 74 / 1.02 |
| Daily Avg Volume (nos.)      | 1,274,580 |
| Daily Avg Turnover (US\$ mn) | 4.4       |

### Shareholding Pattern Mar '21

|                   |       |
|-------------------|-------|
| Promoters         | 40.7% |
| FIIIs             | 17.4% |
| DIIIs             | 17.7% |
| Public and Others | 24.2% |

### Price Performance

| (%)                  | 1M | 3M | 6M | 12M |
|----------------------|----|----|----|-----|
| <b>Absolute</b>      | 9  | 12 | 46 | 249 |
| <b>Rel. to Nifty</b> | 3  | 11 | 24 | 110 |

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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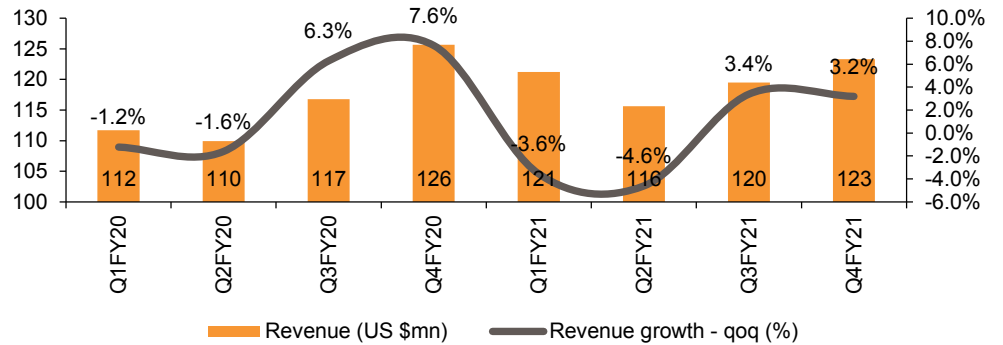
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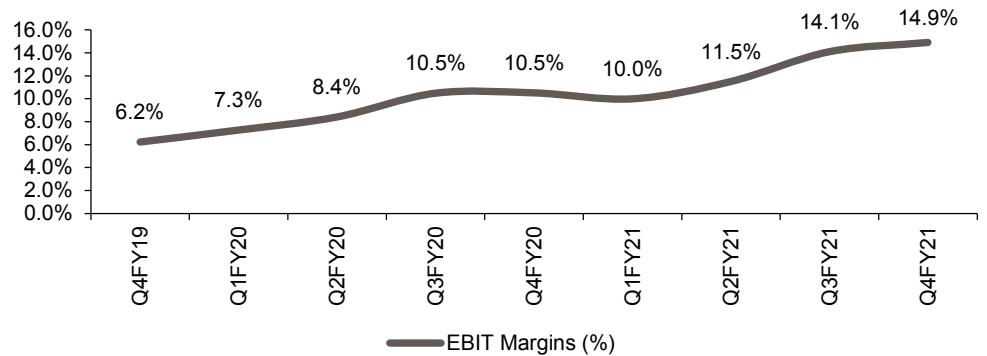
## Story in Charts

**Exhibit 1: Revenue growth momentum sustained in Q4FY21**



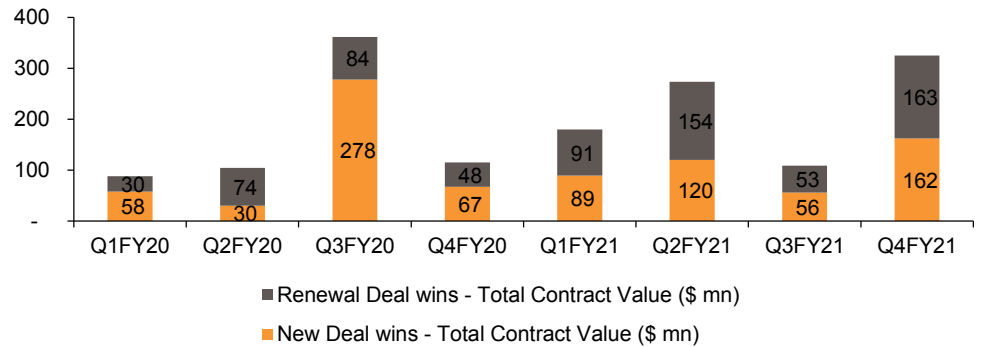
Source: Company, Emkay Research

**Exhibit 2: EBITM expanded by 80bps QoQ to 14.9% in Q4FY21**



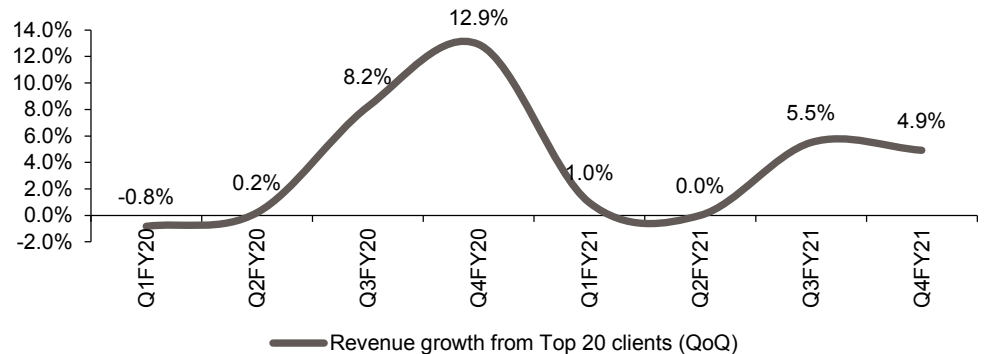
Source: Company, Emkay Research

**Exhibit 3: Deal wins were robust in Q4FY21**



Source: Company, Emkay Research

**Exhibit 4: Top-20 clients have led the growth in recent quarters**

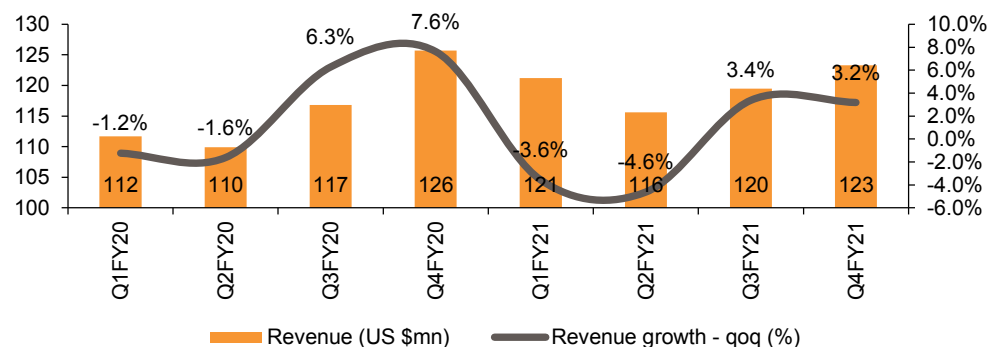


Source: Company, Emkay Research

## Strong operating performance

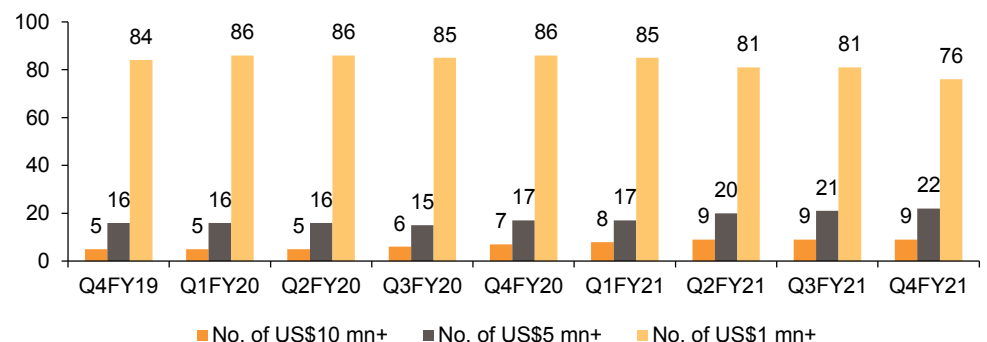
Birlasoft reported broad-based revenue growth of 3.2% QoQ during the quarter, led by Lifesciences (4% QoQ), Manufacturing (3.7%), Energy & Utilities (3.2%) and BFSI (1%). Management expects all verticals to register growth in FY22, with Manufacturing and Lifesciences verticals leading it. Geographically, growth was led by Americas (4.1% QoQ), while UK & Europe (-0.8%) and RoW (0.8%) were flat in the quarter. Management reiterated that UK & Europe remains the focus in terms of geography and expects its revenue share to increase in the coming years. In terms of services lines, Digital transformation led the growth (8.1% QoQ), followed by Emerging Horizontal (3.2%) and Integrated Enterprise Solutions (1.5%). SAP business continued its declining trajectory and fell 5.6% QoQ. However, management indicated that many SAP-related digital deals are in the pipeline, which should help to buck the trend in the coming quarters. The company has completed tail account rationalization, with total active clients standing at 291 at the end of Q4 (active clients declined by 4 QoQ/87 YoY). Total deal intake for Q4 was robust at USD325mn (USD162mn net new) and USD888mn for FY21 (up ~33% YoY). In Q4, the company signed 4 deals with a TCV of over USD10mn (including a large deal of USD38mn TCV) and 3 deals with a TCV of over USD5mn. 90% of the deals won during the quarter came from existing customers, a testimony to the company's strong upselling and cross-selling focus. Management is focusing on: 1) Digital platform initiatives and cloud; 2) driving up the annuity revenues; 3) cross-selling and upselling opportunities in Top-30 clients; 4) uptick in revenue from new clients with opening up of US/Europe economies (revenue from new clients dip to ~2% in FY21 vs. usual 5-7%); and 5) micro-vertical strategy to drive growth in FY22. It expects to deliver double-digit growth in FY22, driven by strong deal intake and robust deal pipeline (USD1.2bn vs. USD600mn in Q4FY20).

**Exhibit 5: Revenue growth momentum sustained in Q4FY21**



Source: Company, Emkay Research

**Exhibit 6: Steady improvement in client metrics**



Source: Company, Emkay Research

## Other takeaways

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- **Q4FY21 performance:** Revenue grew 3.2% QoQ (3% CC) and declined 1.9% YoY to USD123.3mn. EBIT margin expanded by 80bps QoQ to 14.9% despite wage hike pressures. EBITM came in 220bps ahead of our expectations due to higher offshoring, flattening pyramid and some one-offs (bad debt provision reversal ~100bps). Total deal intake for Q4 was robust at USD325mn (USD162mn net new), taking total deal take to USD888mn for FY21 (up ~33% YoY). Revenues from Top-20 clients grew 4.9% QoQ, in line with the company's focus on strategic top accounts.
- **Outlook:** The company expects healthy growth momentum to sustain and is aiming to deliver double-digit growth in FY22. It expects manufacturing and Lifesciences verticals to lead growth in FY22. Birlasoft has indicated that it will continue to employ the micro-vertical strategy within all verticals to drive growth as it has given good results in the past. The deal pipeline at the end of Q4 stood at USD1.2bn vs. USD600mn at Q4FY20-end, providing good revenue visibility. Management expects EBITDAM to sustain at 15% with an upward bias in FY22 as it anticipates headwinds stemming from wage hikes and investments in capability building and talent, which would be partially offset by revenue growth-led operating leverage, higher offshoring and other efficiencies.

### Others

- The board announced a final dividend of Rs2.5 per share.
- ETR for FY22 is expected to be in the range of 27-29%.
- DSO at the end of the quarter was the lowest-ever at 56 days.

**Exhibit 7: Actual vs. estimates (Q4FY21)**

| (Rs mn)        | Actual | Estimate (Emkay) | Consensus estimate | % variation |           | Comment   |
|----------------|--------|------------------|--------------------|-------------|-----------|---|
|                |        |                  |                    | Emkay       | Consensus |   |
| Sales (USD mn) | 123    | 124              | 124                | -0.2%       | -0.5%     | USD revenues were largely in line with expectations   |
| Sales (Rs mn)  | 9029   | 9,005            | 9,038              | 0.3%        | -0.1%     |   |
| EBIT           | 1,346  | 1,141            | 1,188              | 18.0%       | 13.3%     |   |
| EBIT, margin   | 14.9%  | 12.7%            | 13.1%              | 220 bps     | 180 bps   | Margins were better than estimates, partly aided by a reversal of provisions (100bps) and lower D&A (30bps) |
| PAT            | 990    | 889              | 901                | 11.3%       | 9.9%      | Net profit was higher on operating performance beat and lower ETR   |

Source: Company, Emkay Research

**Exhibit 8: Quarterly snapshot**

| Rs mn                 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | YoY (%) | QoQ (%) | FY20   | FY21   | YoY (%) |
|-----------------------|--------|--------|--------|--------|--------|---------|---------|--------|--------|---------|
| Revenues(in US\$ mn)  | 126    | 121    | 116    | 120    | 123    | (1.9)   | 3.2     | 464    | 480    | 3.3     |
| Revenue               | 9,071  | 9,146  | 8,575  | 8,808  | 9,029  | (0.5)   | 2.5     | 32,910 | 35,557 | 8.0     |
| Operating Expenditure | 7,903  | 8,017  | 7,380  | 7,363  | 7,505  | (5.0)   | 1.9     | 29,041 | 30,265 | 4.2     |
| Cost of revenues      | 5,251  | 5,345  | 5,231  | 5,254  | 5,328  | 1.5     | 1.4     | 19,975 | 21,158 | 5.9     |
| as % of sales         | 57.9   | 58.4   | 61.0   | 59.7   | 59.0   |         |         | 60.7   | 59.5   |         |
| SG&A expenses         | 2,652  | 2,671  | 2,149  | 2,109  | 2,177  | (17.9)  | 3.2     | 9,065  | 9,107  | 0.5     |
| as % of sales         | 29.2   | 29.2   | 25.1   | 23.9   | 24.1   |         |         | 27.5   | 25.6   |         |
| EBITDA                | 1,167  | 1,129  | 1,195  | 1,444  | 1,524  | 30.5    | 5.5     | 3,869  | 5,292  | 36.8    |
| Depreciation          | 214    | 215    | 208    | 202    | 178    | (16.8)  | (12.1)  | 826    | 804    | (2.7)   |
| EBIT                  | 954    | 914    | 986    | 1,242  | 1,346  | 41.1    | 8.4     | 3,043  | 4,489  | 47.5    |
| Other Income          | 155    | -116   | 30     | 124    | 22     |         |         | 319    | 60     |         |
| PBT                   | 1,109  | 798    | 1,016  | 1,366  | 1,368  | 23.4    | 0.1     | 3,362  | 4,548  | 35.3    |
| Total Tax             | 418    | 234    | 325    | 402    | 378    | (9.5)   | (6.0)   | 1,119  | 1,340  | 19.8    |
| Adjusted PAT          | 690    | 564    | 691    | 964    | 990    | 43.3    | 2.7     | 2,243  | 3,209  | 43.0    |
| APAT after MI         | 690    | 564    | 691    | 964    | 990    | 43.3    | 2.7     | 2,243  | 3,209  | 43.0    |
| Extra ordinary items  |        |        |        |        |        |         |         |        |        |         |
| Reported PAT          | 690    | 564    | 691    | 964    | 990    | 43      | 3       | 2,243  | 3,209  | 43      |
| Reported EPS          | 2.5    | 2.0    | 2.5    | 3.5    | 3.6    | 43.0    | 2.6     | 8      | 12     | 42.6    |

| Margins (%)        |      |      |      |      |      | (bps)   | (bps) |      |      |       | (bps) |
|--------------------|------|------|------|------|------|---------|-------|------|------|-------|-------|
| EBIDTA             | 12.9 | 12.3 | 13.9 | 16.4 | 16.9 | 401     | 48    | 11.8 | 14.9 | 313   |       |
| EBIT               | 10.5 | 10.0 | 11.5 | 14.1 | 14.9 | 440     | 81    | 9.2  | 12.6 | 338   |       |
| EBT                | 12.2 | 8.7  | 11.8 | 15.5 | 15.2 | 293     | (36)  | 10.2 | 12.8 | 258   |       |
| PAT                | 7.6  | 6.2  | 8.1  | 10.9 | 11.0 | 335     | 2     | 6.8  | 9.0  | 221   |       |
| Effective Tax rate | 37.7 | 29.4 | 32.0 | 29.5 | 27.7 | (1,007) | (180) | 33.3 | 29.5 | (382) |       |

Source: Company, Emkay Research

**Exhibit 9: Revenues by geography**

| Particulars | As a % of revenue |        |        |         |         |
|-------------|-------------------|--------|--------|---------|---------|
|             | Q4FY21            | Q3FY21 | Q4FY20 | QoQ (%) | YoY (%) |
| Americas    | 79.0%             | 78.3%  | 81.6%  | 4.1%    | -5.0%   |
| UK& Europe  | 12.5%             | 13.0%  | 8.7%   | -0.8%   | 40.9%   |
| RoW         | 8.5%              | 8.7%   | 9.7%   | 0.8%    | -14.0%  |
| Total       | 100%              | 100%   | 100%   | 3.2%    | -1.9%   |

Source: Company, Emkay Research

**Exhibit 10: Revenues by industry**

| Particulars        | As a % of revenue |        |        |         |         |
|--------------------|-------------------|--------|--------|---------|---------|
|                    | Q4FY21            | Q3FY21 | Q4FY20 | QoQ (%) | YoY (%) |
| Manufacturing      | 42.3%             | 42.1%  | 40.6%  | 3.7%    | 2.2%    |
| BFSI               | 18.3%             | 18.7%  | 17.1%  | 1.0%    | 5.0%    |
| Energy & utilities | 14.8%             | 14.8%  | 17.0%  | 3.2%    | -14.6%  |
| Lifesciences       | 24.6%             | 24.4%  | 25.2%  | 4.0%    | -4.2%   |
| Total              | 100%              | 100%   | 100%   | 3.2%    | -1.9%   |

Source: Company, Emkay Research

**Exhibit 11: Revenue by segments**

| Particulars                           | As a % of revenue |        |        |         |         |
|---------------------------------------|-------------------|--------|--------|---------|---------|
|                                       | Q4FY21            | Q3FY21 | Q4FY20 | QoQ (%) | YoY (%) |
| Integrated Enterprise Solutions (IES) | 30.9%             | 31.4%  | 32.3%  | 1.5%    | -6.2%   |
| SAP                                   | 11.9%             | 13.0%  | 16.2%  | -5.6%   | -27.9%  |
| Digital Transformation                | 35.2%             | 33.6%  | 26.9%  | 8.1%    | 28.4%   |
| Emerging Horizontals                  | 22.0%             | 22.0%  | 24.5%  | 3.2%    | -11.9%  |
| Total                                 | 100%              | 100%   | 100%   | 3.2%    | -1.9%   |

Source: Company, Emkay Research

**Exhibit 12: Client data**

| Particulars               | Q4FY21 | Q3FY21 | Q4FY20 |
|---------------------------|--------|--------|--------|
| Number of Active clients  | 291    | 295    | 378    |
| New customers added       | -4     | -15    | -3     |
| Client concentration      |        |        |        |
| Top 5                     | 33%    | 33%    | 28%    |
| Top 10                    | 45%    | 45%    | 40%    |
| Top 20                    | 61%    | 60%    | 53%    |
| Client metrics            |        |        |        |
| No of US\$ 10 mn+ clients | 9      | 9      | 7      |
| No of US\$ 5 mn+ clients  | 22     | 21     | 17     |
| No of US\$ 1 mn+ clients  | 76     | 81     | 86     |

Source: Company, Emkay Research

**Exhibit 13: Segmental performance**

| Revenue (USD mn)   | Q2FY20       | Q3FY20       | Q4FY20       | Q1FY21       | Q2FY21       | Q3FY21       | Q4FY21       |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| BFSI               | 1,459        | 1,469        | 1,438        | 1,534        | 1,599        | 1,643        | 1,654        |
| Manufacturing      | 3,557        | 3,652        | 3,730        | 3,520        | 3,638        | 3,694        | 3,822        |
| Energy & Utilities | 1,410        | 1,570        | 1,584        | 1,431        | 1,305        | 1,301        | 1,338        |
| Lifesciences       | 1,307        | 1,641        | 2,318        | 2,661        | 2,032        | 2,170        | 2,214        |
| <b>TOTAL</b>       | <b>7,734</b> | <b>8,333</b> | <b>9,071</b> | <b>9,146</b> | <b>8,575</b> | <b>8,808</b> | <b>9,029</b> |

| EBITDA (%)         | Q2FY20       | Q3FY20       | Q4FY20       | Q1FY21       | Q2FY21       | Q3FY21       | Q4FY21       |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| BFSI               | 25.5%        | 24.5%        | 30.3%        | 25.6%        | 28.2%        | 30.5%        | 28.5%        |
| Manufacturing      | 22.8%        | 26.8%        | 28.2%        | 29.1%        | 30.7%        | 31.3%        | 31.1%        |
| Energy & Utilities | 30.8%        | 38.8%        | 39.9%        | 36.5%        | 39.9%        | 40.7%        | 42.8%        |
| Lifesciences       | 27.9%        | 17.0%        | 21.9%        | 16.3%        | 16.1%        | 18.1%        | 17.3%        |
| <b>TOTAL</b>       | <b>25.6%</b> | <b>26.7%</b> | <b>29.0%</b> | <b>26.0%</b> | <b>28.2%</b> | <b>29.3%</b> | <b>29.0%</b> |

Source: Company, Emkay Research

**Exhibit 14: Changes in estimates**

| All fig in Rs mn<br>except EPS and %) | FY22E  |        |       | FY23E  |        |      |
|---------------------------------------|--------|--------|-------|--------|--------|------|
|                                       | Old    | New    |       | Old    | New    |      |
| Revenues( US\$ mn)                    | 548    | 546.9  | -0.2% | 619    | 623.6  | 0.8% |
| YoY growth, %                         | 14.0   | 14.0   |       | 13.0   | 14.0   |      |
| Revenues                              | 41,087 | 40,763 | -0.8% | 47,033 | 47,395 | 0.8% |
| EBIT                                  | 5,251  | 5,412  | 3.1%  | 6,283  | 6,454  | 2.7% |
| EBIT margins, %                       | 12.8   | 13.3   |       | 13.4   | 13.6   |      |
| Net profits                           | 4,073  | 4,247  | 4.3%  | 5,018  | 5,158  | 2.8% |
| EPS                                   | 14.7   | 15.3   | 4.2%  | 18.1   | 18.6   | 2.7% |

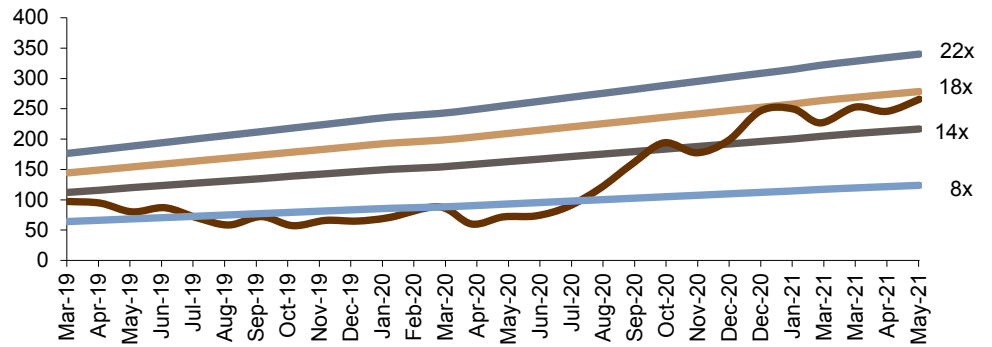
Source: Company, Emkay Research

**Exhibit 15: Key assumptions**

| (in Rs mn)      | FY21  | FY22E | FY23E |
|-----------------|-------|-------|-------|
| USD growth (%)  | 3.3%  | 14.0% | 14.0% |
| USD/INR         | 74.1  | 74.5  | 76.0  |
| INR Growth (%)  | 8.0%  | 14.6% | 16.3% |
| EBIT margin (%) | 12.6% | 13.3% | 13.6% |
| EPS Growth (%)  | 42.6% | 32.4% | 21.4% |

Source: Company, Emkay Research

Exhibit 16: BSOFT's 1-year forward P/E band



Source: Company, Emkay Research

Exhibit 17: Valuation summary

| Co Name                      | CMP        | Reco.      | Target Price | US\$ revenue growth (%) |             |             | EPS         |             |             | P/E         |             |             | EV/EBIT     |             |            |
|------------------------------|------------|------------|--------------|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
|                              |            |            |              | FY21                    | FY22E       | FY23E       | FY21        | FY22E       | FY23E       | FY21        | FY22E       | FY23E       | FY21        | FY22E       | FY23E      |
| <b>IT Services companies</b> |            |            |              |                         |             |             |             |             |             |             |             |             |             |             |            |
| TCS                          | 3,081      | Hold       | 3,150        | 0.6                     | 15.8        | 11.0        | 87.7        | 107.2       | 121.3       | 35.1        | 28.7        | 25.4        | 26.9        | 22.0        | 19.3       |
| Infosys                      | 1,355      | Buy        | 1,550        | 6.1                     | 17.6        | 12.4        | 45.5        | 54.9        | 61.8        | 29.8        | 24.7        | 21.9        | 21.8        | 18.2        | 15.9       |
| Wipro                        | 513        | Hold       | 450          | -1.4                    | 18.8        | 10.0        | 19.7        | 20.5        | 22.6        | 26.0        | 25.0        | 22.7        | 20.6        | 19.5        | 17.3       |
| HCL Tech                     | 931        | Buy        | 1,130        | 2.4                     | 12.8        | 9.7         | 45.8        | 52.2        | 56.9        | 20.3        | 17.8        | 16.4        | 15.5        | 13.0        | 11.7       |
| Tech Mahindra                | 981        | Buy        | 1,190        | -1.4                    | 10.4        | 9.2         | 50.7        | 58.3        | 65.9        | 19.4        | 16.8        | 14.9        | 13.9        | 11.6        | 10.0       |
| L&T Infotech                 | 3,656      | Sell       | 3,550        | 9.5                     | 17.0        | 14.0        | 110.8       | 125.6       | 148.0       | 33.0        | 29.1        | 24.7        | 26.4        | 22.7        | 19.1       |
| Mphasis                      | 1,786      | Hold       | 1,570        | 5.7                     | 12.0        | 11.9        | 65.2        | 75.6        | 87.2        | 27.4        | 23.6        | 20.5        | 20.0        | 17.2        | 14.7       |
| Mindtree                     | 2,123      | Sell       | 1,650        | -1.1                    | 15.5        | 12.0        | 67.4        | 77.5        | 82.9        | 31.5        | 27.4        | 25.6        | 23.4        | 19.7        | 18.5       |
| Persistent Systems           | 2,389      | Buy        | 2,250        | 12.9                    | 18.5        | 15.0        | 59.0        | 78.6        | 93.7        | 40.5        | 30.4        | 25.5        | 31.9        | 23.4        | 18.9       |
| <b>Birlasoft</b>             | <b>267</b> | <b>Buy</b> | <b>330</b>   | <b>3.3</b>              | <b>14.0</b> | <b>14.0</b> | <b>11.5</b> | <b>15.3</b> | <b>18.6</b> | <b>23.7</b> | <b>17.9</b> | <b>14.7</b> | <b>14.1</b> | <b>11.1</b> | <b>8.8</b> |
| Coforge                      | 3,330      | Hold       | 3,150        | 5.8                     | 30.3        | 14.8        | 75.2        | 105.7       | 131.3       | 44.3        | 31.5        | 25.4        | 32.1        | 22.7        | 18.4       |
| Firstsource Solutions        | 139        | Buy        | 145          | 18.6                    | 17.4        | 11.2        | 5.2         | 8.2         | 9.6         | 26.7        | 17.0        | 14.4        | 16.6        | 13.4        | 11.1       |

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

| Y/E Mar (Rs mn)                  | FY19          | FY20          | FY21          | FY22E         | FY23E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                   | <b>33,052</b> | <b>32,910</b> | <b>35,557</b> | <b>40,763</b> | <b>47,395</b> |
| <b>Expenditure</b>               | <b>29,849</b> | <b>29,041</b> | <b>30,265</b> | <b>34,455</b> | <b>39,966</b> |
| <b>EBITDA</b>                    | <b>3,203</b>  | <b>3,869</b>  | <b>5,292</b>  | <b>6,309</b>  | <b>7,430</b>  |
| Depreciation                     | 640           | 826           | 804           | 896           | 976           |
| <b>EBIT</b>                      | <b>2,563</b>  | <b>3,043</b>  | <b>4,489</b>  | <b>5,412</b>  | <b>6,454</b>  |
| Other Income                     | 483           | 480           | 190           | 562           | 782           |
| Interest expenses                | 118           | 161           | 130           | 116           | 122           |
| <b>PBT</b>                       | <b>2,928</b>  | <b>3,362</b>  | <b>4,548</b>  | <b>5,858</b>  | <b>7,114</b>  |
| Tax                              | 618           | 1,119         | 1,340         | 1,611         | 1,956         |
| Extraordinary Items              | 176           | 0             | 0             | 0             | 0             |
| Minority Int./Income from Assoc. | 0             | 0             | 0             | 0             | 0             |
| <b>Reported Net Income</b>       | <b>2,486</b>  | <b>2,243</b>  | <b>3,209</b>  | <b>4,247</b>  | <b>5,158</b>  |
| <b>Adjusted PAT</b>              | <b>2,310</b>  | <b>2,243</b>  | <b>3,209</b>  | <b>4,247</b>  | <b>5,158</b>  |

**Balance Sheet**

| Y/E Mar (Rs mn)                            | FY19          | FY20          | FY21          | FY22E         | FY23E         |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital                       | 548           | 553           | 555           | 555           | 555           |
| Reserves & surplus                         | 16,587        | 18,371        | 21,245        | 24,212        | 27,805        |
| <b>Net worth</b>                           | <b>17,135</b> | <b>18,924</b> | <b>21,799</b> | <b>24,767</b> | <b>28,360</b> |
| <b>Minority Interest</b>                   | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| <b>Loan Funds</b>                          | <b>381</b>    | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| Net deferred tax liability                 | (1,433)       | (1,200)       | (882)         | (882)         | (882)         |
| <b>Total Liabilities</b>                   | <b>16,084</b> | <b>17,724</b> | <b>20,917</b> | <b>23,885</b> | <b>27,478</b> |
| <b>Net block</b>                           | <b>5,881</b>  | <b>7,510</b>  | <b>6,982</b>  | <b>6,655</b>  | <b>6,409</b>  |
| <b>Investment</b>                          | <b>1,909</b>  | <b>330</b>    | <b>553</b>    | <b>553</b>    | <b>553</b>    |
| <b>Current Assets</b>                      | <b>15,753</b> | <b>17,810</b> | <b>21,462</b> | <b>25,992</b> | <b>31,156</b> |
| Cash & bank balance                        | 3,772         | 6,301         | 10,430        | 13,438        | 16,728        |
| Other Current Assets                       | 3,064         | 2,243         | 4,114         | 4,359         | 4,997         |
| <b>Current liabilities &amp; Provision</b> | <b>7,459</b>  | <b>7,949</b>  | <b>8,145</b>  | <b>9,382</b>  | <b>10,706</b> |
| <b>Net current assets</b>                  | <b>8,294</b>  | <b>9,861</b>  | <b>13,317</b> | <b>16,611</b> | <b>20,450</b> |
| Misc. exp                                  | 0             | 0             | 0             | 0             | 0             |
| <b>Total Assets</b>                        | <b>16,084</b> | <b>17,724</b> | <b>20,917</b> | <b>23,885</b> | <b>27,478</b> |

**Cash Flow**

| Y/E Mar (Rs mn)                       | FY19           | FY20           | FY21           | FY22E          | FY23E          |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>PBT (Ex-Other income) (NI+Dep)</b> | <b>2,445</b>   | <b>2,882</b>   | <b>4,358</b>   | <b>5,296</b>   | <b>6,332</b>   |
| Other Non-Cash items                  | 867            | 1,583          | 1,258          | 1,611          | 1,956          |
| Chg in working cap                    | (5,370)        | (885)          | 845            | (286)          | (549)          |
| <b>Operating Cashflow</b>             | <b>(716)</b>   | <b>3,124</b>   | <b>5,578</b>   | <b>4,858</b>   | <b>5,585</b>   |
| Capital expenditure                   | (708)          | (543)          | (246)          | (570)          | (730)          |
| <b>Free Cash Flow</b>                 | <b>(1,424)</b> | <b>2,581</b>   | <b>5,332</b>   | <b>4,288</b>   | <b>4,855</b>   |
| Investments                           | 1,759          | 38             | (4,355)        | 0              | 0              |
| Other Investing Cash Flow             | 0              | 0              | 0              | 0              | 0              |
| <b>Investing Cashflow</b>             | <b>1,248</b>   | <b>(462)</b>   | <b>(4,444)</b> | <b>(570)</b>   | <b>(730)</b>   |
| Equity Capital Raised                 | 17             | 8              | 2              | 0              | 0              |
| Loans Taken / (Repaid)                | (446)          | (775)          | (395)          | 0              | 0              |
| Dividend paid (incl tax)              | (554)          | (996)          | (554)          | (1,280)        | (1,564)        |
| Other Financing Cash Flow             | 0              | 0              | 0              | 0              | 0              |
| <b>Financing Cashflow</b>             | <b>(1,162)</b> | <b>(1,797)</b> | <b>(969)</b>   | <b>(1,280)</b> | <b>(1,564)</b> |
| <b>Net chg in cash</b>                | <b>(629)</b>   | <b>865</b>     | <b>165</b>     | <b>3,008</b>   | <b>3,291</b>   |
| Opening cash position                 | 4,651          | 3,617          | 6,301          | 12,236         | 15,244         |
| <b>Closing cash position</b>          | <b>3,772</b>   | <b>6,301</b>   | <b>12,236</b>  | <b>15,244</b>  | <b>18,534</b>  |

Source: Company, Emkay Research



**Key Ratios**

| <b>Profitability (%)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> |
|--------------------------|-------------|-------------|-------------|--------------|--------------|
| EBITDA Margin            | 9.7         | 11.8        | 14.9        | 15.5         | 15.7         |
| EBIT Margin              | 7.8         | 9.2         | 12.6        | 13.3         | 13.6         |
| Effective Tax Rate       | 21.1        | 33.3        | 29.5        | 27.5         | 27.5         |
| Net Margin               | 7.0         | 6.8         | 9.0         | 10.4         | 10.9         |
| ROCE                     | 16.9        | 20.8        | 24.2        | 26.7         | 28.2         |
| ROE                      | 13.1        | 12.4        | 15.8        | 18.2         | 19.4         |
| RoIC                     | 21.6        | 28.3        | 42.9        | 55.0         | 64.7         |

| <b>Per Share Data (Rs)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> |
|----------------------------|-------------|-------------|-------------|--------------|--------------|
| EPS                        | 9.1         | 8.1         | 11.5        | 15.3         | 18.6         |
| CEPS                       | 10.6        | 11.0        | 14.1        | 18.1         | 21.6         |
| BVPS                       | 61.7        | 67.7        | 76.6        | 87.1         | 99.7         |
| DPS                        | 0.0         | 2.0         | 3.5         | 4.5          | 5.5          |

| <b>Valuations (x)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> |
|-----------------------|-------------|-------------|-------------|--------------|--------------|
| PER                   | 32.1        | 33.3        | 23.7        | 17.9         | 14.7         |
| P/CEPS                | 25.1        | 24.3        | 18.9        | 14.8         | 12.4         |
| P/BV                  | 4.3         | 3.9         | 3.5         | 3.1          | 2.7          |
| EV / Sales            | 2.1         | 2.1         | 1.8         | 1.5          | 1.2          |
| EV / EBITDA           | 21.5        | 17.6        | 12.3        | 9.8          | 7.9          |
| Dividend Yield (%)    | 0.0         | 0.7         | 1.3         | 1.7          | 2.1          |

| <b>Gearing Ratio (x)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> |
|--------------------------|-------------|-------------|-------------|--------------|--------------|
| Net Debt/ Equity         | (0.3)       | (0.4)       | (0.5)       | (0.6)        | (0.6)        |
| Net Debt/EBIDTA          | (1.7)       | (1.7)       | (2.1)       | (2.2)        | (2.3)        |
| Working Cap Cycle (days) | 49.9        | 39.5        | 29.6        | 28.4         | 28.7         |

| <b>Growth (%)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> |
|-------------------|-------------|-------------|-------------|--------------|--------------|
| Revenue           | 46.9        | (0.4)       | 8.0         | 14.6         | 16.3         |
| EBITDA            | 13.1        | 20.8        | 36.8        | 19.2         | 17.8         |
| EBIT              | 5.4         | 18.7        | 47.5        | 20.6         | 19.2         |
| PAT               | (2.3)       | (9.8)       | 43.0        | 32.4         | 21.4         |

| <b>Quarterly (Rs mn)</b> | <b>Q4FY20</b> | <b>Q1FY21</b> | <b>Q2FY21</b> | <b>Q3FY21</b> | <b>Q4FY21</b> |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                  | 9,071         | 9,146         | 8,575         | 8,808         | 9,029         |
| EBITDA                   | 1,167         | 1,129         | 1,195         | 1,444         | 1,524         |
| <b>EBITDA Margin (%)</b> | <b>12.9</b>   | <b>12.3</b>   | <b>13.9</b>   | <b>16.4</b>   | <b>16.9</b>   |
| PAT                      | 690           | 564           | 691           | 964           | 990           |
| <b>EPS (Rs)</b>          | <b>2.5</b>    | <b>2.0</b>    | <b>2.5</b>    | <b>3.5</b>    | <b>3.6</b>    |

Source: Company, Emkay Research

| <b>Shareholding Pattern (%)</b> | <b>Mar-20</b> | <b>Jun-20</b> | <b>Sep-20</b> | <b>Dec-20</b> | <b>Mar-21</b> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters                       | 40.8          | 40.8          | 40.7          | 40.7          | 40.7          |
| FIIIs                           | 27.1          | 25.1          | 22.5          | 17.5          | 17.4          |
| DIIs                            | 7.7           | 8.7           | 11.6          | 16.9          | 17.7          |
| Public and Others               | 24.4          | 25.4          | 25.2          | 24.8          | 24.2          |

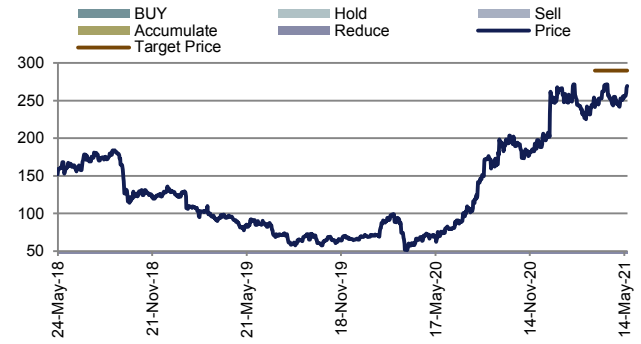
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

| Date     | Closing Price | TP  | Period (months) | Rating | Analyst           |
|----------|---------------|-----|-----------------|--------|-------------------|
| 5-Apr-21 | 270           | 290 | 12m             | Hold   | Dipeshkumar Mehta |
| 8-Feb-21 | 271           | 290 | 12m             | Hold   | Dipeshkumar Mehta |

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Information Technology



### Analyst: Dipesh Mehta

#### Contact Details

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#### Sector

IT Services, ITeS and Software

#### Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

### EAP sector portfolio

| Company Name                  | BSE200 Weight | EAP Weight   | OW/UW (%)  | OW/UW (bps) | EAP Weight (Normalised) |
|-------------------------------|---------------|--------------|------------|-------------|-------------------------|
| <b>Information Technology</b> | <b>12.78</b>  | <b>12.52</b> | <b>-2%</b> | <b>-26</b>  | <b>100.00</b>           |
| BirlaSoft                     | 0.00          | 0.07         | NA         | 7           | 0.54                    |
| Coforge                       | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| eClerx Services*              | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| Firstsource Solutions         | 0.00          | 0.08         | NA         | 8           | 0.62                    |
| HCL Tech                      | 1.18          | 1.30         | 10%        | 12          | 10.19                   |
| Infosys                       | 5.77          | 5.81         | 1%         | 4           | 45.42                   |
| Intellect Design*             | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| L&T Infotech                  | 0.18          | 0.00         | -100%      | -18         | 0.00                    |
| Majesco*                      | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| Mindtree                      | 0.11          | 0.00         | -100%      | -11         | 0.00                    |
| Mphasis                       | 0.17          | 0.13         | -26%       | -4          | 0.99                    |
| MPS*                          | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| NIIT*                         | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| Nucleus Software*             | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| Oracle Financial Services*    | 0.10          | 0.00         | -100%      | -10         | 0.00                    |
| Persistent Systems            | 0.00          | 0.51         | NA         | 51          | 3.97                    |
| Ramco Systems*                | 0.00          | 0.00         | NA         | 0           | 0.00                    |
| TCS                           | 3.72          | 3.32         | -11%       | -41         | 25.97                   |
| Tech Mahindra                 | 0.71          | 0.72         | 2%         | 2           | 5.66                    |
| Wipro                         | 0.85          | 0.59         | -31%       | -26         | 4.61                    |
| <b>Cash</b>                   | <b>0.00</b>   | <b>0.26</b>  | <b>NA</b>  | <b>26</b>   | <b>2.03</b>             |

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

|   | Base     |           |           |           |           | Latest    |
|---|----------|-----------|-----------|-----------|-----------|-----------|
|   | 1-Apr-19 | 21-May-20 | 20-Nov-20 | 18-Feb-21 | 20-Apr-21 | 20-May-21 |
| EAP - Information Technology            | 100.0    | 91.3      | 144.7     | 170.8     | 177.3     | 177.4     |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0    | 90.1      | 137.7     | 161.4     | 167.0     | 165.6     |

\*Performance measurement base date 1<sup>st</sup> April 2019

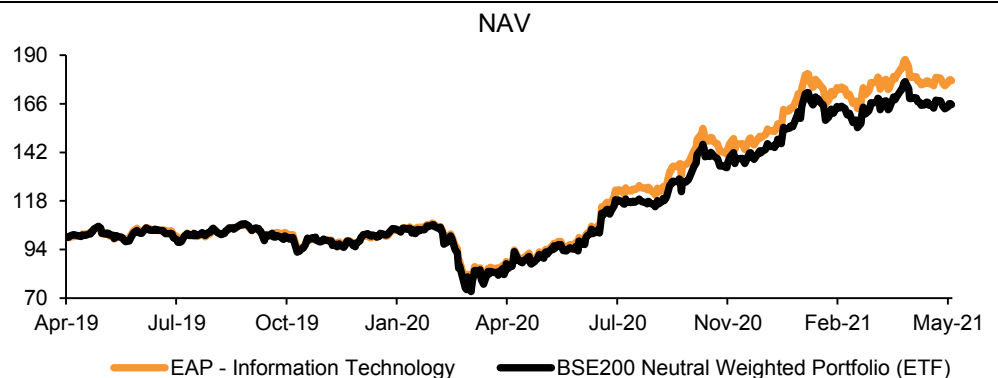
Source: Emkay Research

### Price Performance (%)

|   | 1m    | 3m   | 6m    | 12m   |
|---|-------|------|-------|-------|
| EAP - Information Technology            | 0.1%  | 3.9% | 22.6% | 94.4% |
| BSE200 Neutral Weighted Portfolio (ETF) | -0.8% | 2.6% | 20.3% | 83.9% |

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

Completed Date: 22 May 2021 16:02:18 (SGT)

Dissemination Date: 22 May 2021 16:03:18 (SGT)

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