Q2FY25 - Result Update
24th October 2024

Birlasoft Ltd.

Margin improvement from Q4FY25

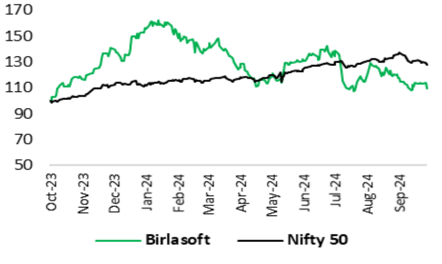
CMP: INR 600	
Rating: Accumulate	
Target Price: INR 690	
Stock Info	
BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Capital (INR mn)	551.1
Mkt Cap (INR mn)	16,61,955
52w H/L (INR)	862/510
Avg Yearly Vol (in 000')	2445

Shareholding Pattern %
(As on Sept, 2024)

Promoters	40.90
FII	18.82
DII	19.55
Public & Others	20.73

Stock Performance (%)	1m	6m	12m
Birlasoft	1.2	-8.03	14.1
Nifty 50	-5.8	9.0	26.7

Birlasoft Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Birlasoft(BSFOT) reported margin decline due to wage hike and lower deal wins. Birlasoft reported Q2FY25 revenues of USD 163.30 mn Up 2.6% QoQ/+3.2% YoY versus (Our estimate of USD 161 Mn). Constant currency (CC) revenue growth is up 2.2% QoQ/2.9% YoY. The company has reported consolidated revenue of INR 13,682 Mn, up by 4.5% YoY/ 3.1% QoQ in Q2FY25 below (Our estimate of INR 13,570 Mn). Growth led by BFSI grew by 15.5% YoY/ +2.% QoQ, followed by Manufacturing grew by 1.2% YoY/ up 5.1% QoQ, Energy & utility grew by 23.3% YoY/+5.0% QoQ while Life science de-grew by 10.4% YoY/-0.8% QoQ. Consolidated EBITDA stood at INR 1,653 Mn below (Our estimate of INR 1,172 Mn). EBIT stood at INR 1,431 Mn (Our estimate of INR 1,530 Mn). On the margins front, the EBITDA margin came at 12.1% against (Our estimate of 12.84%) down by 261bps QoQ/down 373bps. EBIT margin came at 10.5% against estimate of 11.27% down by 269bps QoQ/down by 371bps. Margin decline due to wage hike. Consolidated PAT stood at INR 1,275 Mn, below (Our estimate of INR 1298 Mn) down 15.1% QoQ/12.1% YoY. The order booking for Q2FY25, was at US $89 mn in TCV (De-growth 5.3% QoQ) and renewals of $ 47 Mn. Active Client Count at 261 in Q2FY25 (compared to 258 in Q1FY25 and 278 in Q2FY24). Revenue from Top 5, Top 10 and Top 20 clients grew YoY by 12.6%, 6.3% and 4.7% respectively. DSO Improved by 6 Days to 58 Days in Q2FY25. LTM attrition up by 20bps QoQ at 11.8%; Headcount down by 287 to 12,578 in total. IT Utilization improved by 30bps QoQ; Offshore revenue 49.5% against 56.5% in Q1FY25. Board has recommended an interim dividend of INR 2.50 per share.

Gaining Wallet Share Through Consolidation Deals: Wallet share has been gained through onsite-centric consolidation deals requiring pricing flexibility, which will become a margin lever as engagements mature, while investments are enhancing recognition of capabilities in the marketplace.

Expected Margin Decline in Q3FY25 Due to Wage Hike: Margins were expected to reach 13.1% EBITDA on a comparable basis, but Q2FY25 delivered 12.1%, due to increased onsite revenues and pricing challenges. A salary hike in Q3FY25 may reduce margins by 150 bps, though operational recovery is anticipated. Q3FY25 will be muted, but improvements are expected starting in Q4, with only a 100bps contraction in operational margins Q2FY25. The company is actively working to get back to its target margin levels in the upcoming quarters.

Healthy pipeline led by strong relationship with clients: The proactive deal pipeline remains robust, although customer decision-making is taking longer, which affects TCV performance. However, a stronger TCV performance is anticipated in H2FY25 compared to H1FY25. 50% of incoming deals are either from existing clients or net new, which is a positive indicator for future growth.

Valuations

Birlasoft delivered decent top-line growth but weak margins in Q2 FY25 due to an increase in onsite revenues and pricing challenges. Revenue has rebounded due to the initiation of delayed projects and growth in consolidation deals, although upfront investments and pricing flexibility may impact margins in the short term. The company expects to continue its growth momentum in the coming quarter. EBITDA margins stand at 13.1%, reflecting a 100 bps impact from increased onsite revenue from consolidation deals and pricing flexibility. Wage increases in Q3 will reduce margins by 150 bps, but margins are expected to improve starting in Q4. Additionally, pricing pressures are anticipated in the medium term due to increased revenue from onsite engagements. The deal pipeline is healthy, although client decision-making is slower. Q3 and Q4 are expected to yield better TCV wins compared to H1 FY25. The deal pipeline shows quarterly improvement, with a resurgence of cost optimization deals. We anticipate a 10.8% CAGR in revenue growth from FY24 to FY27E. **Our valuation, based on a PE of 24x FY27E EPS of ~INR 29, yields a target price of INR 690 per share. We upgrade our rating to a " Accumulate" from Neutral earlier.**

Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

Particulars (in INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	*163.30*	*159.10*	*158.30*	*2.6%*	*3.2%*
Net Revenue	13,682	13,274	13,099	*3.1%*	*4.5%*
Employee cost	8,296	7,602	7,441	*9.1%*	*11.5%*
Other Expenses	3,732	3,722	3,586	*0.3%*	*4.1%*
EBITDA	1,653	1,951	2,071	*-15.3%*	*-20.2%*
EBITDA margin %	*12.1%*	*14.7%*	*15.8%*	*-261bps*	*-373bps*
Depreciation	222	206	215	*8.0%*	*3.4%*
EBIT	1,431	1,745	1,856	*-18.0%*	*-22.9%*
EBIT margin %	10.5%	13.1%	14.2%	*-269bps*	*-371bps*
Other Income	334	345	156	*-3.4%*	*114.3%*
Finance costs	68	42	57	*61.8%*	*19.4%*
PBT	1,697	2,049	1,955	*-17.2%*	*-13.2%*
Tax Expense	422	547	504	*-22.8%*	*-16.4%*
Effective tax rate %	24.9%	26.7%	25.8%	*-6.8%*	*-3.7%*
PAT	1,275.07	1,502.07	1,450.77	*-15.1%*	*-12.1%*
MI & Associates	-	-	-		
Consolidated PAT	1,275.07	1,502.07	1,450.77	*-15.1%*	*-12.1%*
Exceptional item	-	-	-		
Reported PAT	1,275.07	1,502.07	1,450.77	*-15.1%*	*-12.1%*
PAT margin %	*9.3%*	*11.3%*	*86.5%*	*-200bps*	*-7718bps*
EPS (INR)	4.6	5.4	5.2	*-15.2%*	*-12.4%*

Particulars (in INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Banking, Financial Services and Insurance	*3,196*	*3,134*	*2,766*	*2.0%*	*15.5%*
Manufacturing	5,458	5,195	5,393	*5.1%*	*1.2%*
Energy and Utilities	2,205	2,099	1,788	*5.0%*	*23.3%*
Life Sciences	2,824	2,846	3,152	*-0.8%*	*-10.4%*

Source: Arihant Research, Company Filings

Q2FY25 Concall highlights

- Growth momentum is expected to continue in Q3 and Margins will be subdued in Q3. It will improve Q4FY24 onwards. Client budgets have not decreased but are in a wait-and-see mode. The goal is to reach 15-16% margin levels starting in Q4.
- **Q2 Revenue growth**: Revenue has rebounded due to the initiation of delayed projects and growth in consolidation deals, although upfront investments and pricing flexibility may impact margins in the short term. The company expect to continue the growth momentum in the coming quarter
- **Segments:** Strong performance continues in manufacturing, energy, and BFSI, while life sciences face challenges. The company efforts will continue to expand the sales team and grow the RoW business while revitalizing growth in Life Sciences. There's a desire to secure transformational deals, especially in Life Sciences and BFSI.
- **Margin** On a like-for-like basis, EBITDA margins are at 13.1%, with a 100bps impact from increased onsite revenue from consolidation deals and pricing flexibility. Wage increases in Q3 will reduce margins by 150bps, but margins should improve starting in Q4.
- The demand landscape remains relatively unchanged.
- Broad growth contributed to Q2 performance.
- The amount of pass-through revenue was lower in Q2 compared to Q1.
- Revenue growth was supported by the closure of delayed projects in Q2.
- Additional business came from vendor consolidation agreements.
- Strong growth was observed in Manufacturing and Managed Services, with ongoing momentum in BFSI.
- **Deal pipeline**: The deal pipeline is healthy, although client decision-making is slower. Q3 and Q4 are anticipated to yield better TCV wins compared to the H1FY25. The deal pipeline shows quarterly improvement, with a resurgence of cost optimization deals.
- **Onsite:** The onsite project mix increased in Q2, impacting margins; consolidation deals are primarily onsite, but there are plans to shift toward offshoring to reduce subcontractor costs. This quarter, onsite engagement has increased to nearly 51%, with many of consolidation deals primarily focused in the onsite space.
- **Offshore:** Some engagements have ended, resulting in decreased offshore work.
- Investment will continue as needed, with a focus on realizing benefits.
- The pipeline features a balanced mix of transformational and vendor consolidation deals, though conversion remains a challenge. Deal pipeline has 50:50 ratio among transformational and vendor consolidation deals; issue is with deal conversion. Some wallet share through consolidation deals that do require some pricing flexibility. These deals tend to be more onsite-centric to start with, which is also reflected in onsite ratio in Q2FY25 this becomes a margin lever as engagement mature. The investments that have been making have already started reflecting the increased recognition of capabilities in the marketplace.
- Few transformational deals are currently available due to uncertainty.
- The aim is to grow the order book on a YoY basis.
- Renewal cycles occur in Q3 and Q1, with a higher renewal rate expected in Q3; new and existing business will make up a smaller portion of the overall order book.
- Pricing pressures are expected in the medium term due to increased revenue from onsite engagements
- There's a focus on leveraging opportunities with SAP and Oracle.
- **ERP:** Delayed ERP projects ramping up Q2FY25. This contributed to healthy revenue growth in Q2FY25, with the ERP business seeing a 4.3% QoQ increase as projects got back on track. Good growth in ERP is expected in Q4, as Q3 is typically slower
- There's a goal to increase billing for annuity work, digital initiatives, and transformational projects for sustainable long-term growth.

Exhibit 3: Key Operating Metrics

	Q1FY24	Q4FY24	Q1FY25	Q2FY25
USD Revenues ($ Mn)	153.60	163.90	159.10	163.30
QoQ growth %	3.0%	1.6%	-2.9%	2.6%
USD/INR	**82.2**	**83.12**	**83.41**	**84.41**
Client Geography	**Q1FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**
Americas	131.8	141.8	133.6	142.6
% contribution	85.8%	86.5%	84.0%	87.3%
qoq	3.6%	2.6%	-5.7%	6.7%
yoy	4.5%	11.5%	1.4%	5.0%
Rest of the World	9.2	22.1	25.5	20.7
% contribution	6.0%	13.5%	16.0%	12.7%
qoq	8.4%	-4.1%	15.0%	-18.5%
yoy	5.1%	160.4%	176.2%	-7.7%
Revenue by Industry Verticals	**Q1FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**
BFSI	31.8	34.7	37.5	38.0
% contribution	20.7%	21.2%	23.6%	23.3%
qoq	4.0%	4.6%	8.1%	1.3%
yoy	20.2%	13.7%	18.1%	13.9%
Energy & Utilities	22.0	24.3	25.1	26.3
% contribution	14.3%	14.8%	15.8%	16.1%
qoq	-1.1%	3.7%	3.6%	4.6%
yoy	3.4%	9.2%	14.4%	21.2%
Lifesciences	37.5	36.2	34.0	33.6
% contribution	24.4%	22.1%	21.4%	20.6%
qoq	42.8%	-6.0%	-6.0%	-1.2%
yoy	19.0%	38.0%	-9.2%	-11.5%
Manufacturing	62.5	68.7	62.4	65.3
% contribution	40.70%	41.90%	39.20%	40.00%
qoq	-11.0%	3.6%	-9.2%	4.7%
yoy	-9.9%	-2.2%	-0.2%	0.4%
Revenue by Service Offerings	**Q1FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**
Data & Analytics	41.0	39.5	197.4	89.3
% contribution	26.70%	24.10%	124.10%	54.70%
Digital & Cloud	83.3	87.7	83.8	89.3
% contribution	54.20%	53.50%	52.70%	54.70%
ERP	44.0	47.8	46.6	50.6
% contribution	33.40%	33.70%	34.90%	35.50%
Infrastructure	12.9	14.4	19.7	16.0
% contribution	8.40%	8.80%	12.40%	9.80%
Revenue by Service Offerings				
Revenues by Contract Type	**Q1FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**
Time & Material	38.50%	38.40%	37.30%	36.00%
Fixed Price, Fixed Monthly	61.5%	61.6%	62.7%	64.0%
Revenues Mix				
Onsite	49.0%	47.8%	43.5%	50.5%
qoq	3.9%	6.0%	-11.7%	19.2%
yoy				
Offshore	51.0%	52.2%	56.5%	49.5%
qoq	2.2%	-2.1%	5.1%	-10.1%
yoy				
Deal Wins - New	**Q1FY24**	**Q4FY24**	**Q1FY25**	**Q2FY25**
New Total Contract Value (TCV) - in $ Mn	80	107	94	89
	Q1FY24	**Q4FY24**	**Q1FY25**	**Q2FY25**
Total Headcount	12235	12,595	12,865	12,578
Addition/Deletion	42	239	270	-287
Technical	11061	11,433	11,597	11,417
Addition/Deletion	18	264	164	-180
Sales & Support	1174	1162	1268	1161
Addition/Deletion	24	-25	106	-107
Women Employees	2863	2968	3048	2972
Attrition (LTM)	18.80%	12.40%	11.60%	11.80%
Utilization	84.90%	86.30%	81.70%	82.00%

Source: Arihant Research, Company Filings

Profit & Loss Account				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenue in USD mn	**637**	**674**	**742**	**820**
Growth (%)	7.09%	5.7%	10.2%	10.6%
Net sales	52,781	56,922	62,340	68,920
Growth (%)	10.08%	7.8%	9.5%	10.6%
Consumption of materials	-	-	-	-
Staff Expenses	30,483	34,208	36,492	39,651
Other operating expenses	13,936	15,369	16,994	19,113
Total Expenditure	44,419	49,577	53,485	58,764
EBITDA	**8,362**	**7,344**	**8,854**	**10,157**
EBITDA Margin	**15.84%**	**12.90%**	**14.20%**	**14.74%**
Depreciation	850	855	891	914
Operating profit	**7,512**	**6,489**	**7,963**	**9,242**
Other income	1,035	970	1,350	1,500
EBIT	**8,547**	**7,459**	**9,313**	**10,742**
EBIT Margin	**16.19%**	**13.10%**	**14.94%**	**15.59%**
Interest	199	173	170	175
Exceptional items	-	-	-	-
Profit before tax	**8,348**	**7,286**	**9,143**	**10,567**
Tax	2,110	1,800	2,286	2,642
Share in profit of associate cos	25.3%	24.7%	25.0%	25.0%
Minority interest	-	-	-	-
Reported net profit	**6,238**	**5,487**	**6,858**	**7,926**
EO Items	-	-	-	-
Adjusted net profit	**6,238**	**5,486**	**6,863**	**7,925**
Share O/s mn	278	276	276	276
Adj. EPS INR	**22.5**	**19.9**	**24.9**	**28.8**

Balance Sheet				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
APPLICATION OF FUNDS :				
Non Current Assets	**8,723**	**10,047**	**11,482**	**13,034**
Fixed Assets	1,142	2,424	3,683	5,038
Capital work in progress	116	-	-	-
Goodwill & other Intangibles	4,957	4,957	4,957	4,957
Noncurrent investment	-	-	-	-
Deferred tax assets	1,283	1,391	1,507	1,633
Long term loans and advances	-	-	-	-
Other non-current assets	1,224	1,276	1,336	1,406
Current Assets	**27,674**	**37,042**	**41,541**	**47,115**
Current investment	10,336	10,336	10,336	10,336
Inventories	-	-	-	-
Sundry debtors	10,365	8,577	9,394	10,385
Cash and bank	4,249	15,243	18,779	23,206
Short loans and advances	-	-	-	-
Others current assets	2,723	2,886	3,033	3,188
Total Assets	**39,256**	**47,089**	**53,023**	**60,149**
SOURCES OF FUNDS :				
Share Capital	551.1	551.1	551.1	551.1
Reserves	29,889	36,527	41,594	47,728
Total Shareholders Funds	**30,440**	**37,078**	**42,145**	**48,279**
Minority interest	-	-	-	-
Non-Current Liabilities	**1,290**	**1,373**	**1,463**	**1,561**
Long term borrowings	-	-	-	-
Deferred tax liability	-	-	-	-
Other long term liabilities	578	589	601	613
Long-term provisions	712	784	862	948
Current Liabilities	**7,458**	**8,638**	**9,416**	**10,309**
Short term borrowings	-	-	-	-
Trade payables	2,805	3,587	3,928	4,343
Other current liabilities	4,022	4,388	4,792	5,235
Short term provisions	631	663	696	731
Total Equity & Liabilities	**39,256**	**47,089**	**53,023**	**60,149**

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT	8,348	7,286	9,143	10,567
Non-cash adjustments	15	58	(289)	(411)
Changes in working capital	(285)	2,852	(134)	(196)
Tax Paid	(1,815)	(1,883)	(2,376)	(2,739)
Cashflow from operations	**6,263**	**8,314**	**6,345**	**7,221**
Capital expenditure	(544)	(2,021)	(2,150)	(2,270)
Change in investments	(5,428)	-	-	-
Other investing cashflow	1,057	918	1,290	1,430
Cashflow from investing	**(4,915)**	**(1,102)**	**(860)**	**(840)**
Issue of equity	1	-	-	-
Issue/repay debt	-	-	-	-
Interest Paid	(199)	(173)	(170)	(175)
Increase / (Decrease) in Loan Funds				
Dividends paid	(1,663)	(1,791)	(1,791)	(1,791)
Other financing cashflow	(84)	12	12	12
Cashflow from financing	**(1,946)**	**(1,953)**	**(1,949)**	**(1,954)**
Change in cash & cash eq	**(598)**	**5,259**	**3,536**	**4,427**
Opening cash & cash eq	**4,249**	**15,243**	**18,779**	**23,206**
Closing cash & cash eq	3,651	20,502	22,314	27,633
Closing cash & Bank Bal.	3,975	20,825	22,638	27,957
Free cash flow to firm	**5,719**	**6,293**	**4,195**	**4,951**

Ratios				
Y/E Mar	**FY24**	**FY25E**	**FY26E**	**FY27E**
PER SHARE				
EPS INR	22.5	19.9	24.9	28.8
CEPS INR	25.5	21.2	24.1	25.7
Book Value INR	109.7	134.6	152.9	175.2
VALUATION				
EV / Net Sales	2.9	2.5	2.2	1.9
EV / EBITDA	18.2	19.0	15.4	13.0
P / E Ratio	26.7	30.1	24.1	20.9
P / BV Ratio	5.5	4.5	3.9	3.4
GROWTH YOY%				
Sales Growth	10.1	(0.5)	1.7	3.2
EBITDA Growth	24.5	(18.9)	11.9	7.1
Net Profit Growth	29.3	(18.8)	16.1	7.9
Gross Fixed Asset Growth	17.5	16.0	15.1	14.5
PROFITABILITY				
Gross Profit/ Net sales ((%)	42.2	39.9	41.5	42.5
EBITDA / Net Sales (%)	15.8	12.9	14.2	14.7
EBIT / Net sales(%)	14.2	11.4	12.8	13.4
NPM / Total income (%)	11.8	9.6	11.0	11.5
ROE (%)	20.5	14.8	16.3	16.4
ROCE (%)	26.9	19.4	21.4	21.6
Tax / PBT %	25.3	24.7	25.0	25.0
TURNOVER				
Net Woking Cycle	52	37	41	46
Debtors Velocity (Days)	72	60	64	69
Inventory (Days)	-	-	-	-
Creditors Velocity (Days)	19	23	23	23
Current Ratio	3.7	4.3	4.4	4.6
Quick Ratio	3.7	4.3	4.4	4.6
LIQUIDITY				
Gross Asset Ratio	6.5	5.6	5.2	5.0
Total Asset Ratio	1.3	1.2	1.2	1.1
Net Debt-Equity Ratio	(0.5)	(0.7)	(0.7)	(0.7)
Interest Coverage	42.9	43.1	54.8	61.4
PAYOUT				
Payout %	28.7	32.6	26.1	22.6
Per share	6.5	6.5	6.5	6.5
Yield %	1.1	1.1	1.1	1.1

Source: Arihant Research, Company Filings

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	**Registered Office**
#1011, Solitaire Corporate Park Building No. 10, 1st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6 Lad Colony, Y.N. Road, Indore - 452003, (M.P.) Fax: (91-731) 4217101

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880