



BSE Code	: 532400
Time Duration	: 1 year
CMP	: ₹74.90 (as on 28 May, 2020)
Target Price	: ₹99

Birlasoft Ltd.

Be Ready To Be On Cloud 9!

Our Tiny Treasure for the month of May is Birlasoft Limited. It is a part of C K Birla Group, which is one of the leading Indian conglomerates with over 25,000 employees, 41 manufacturing facilities, 21 service delivery locations and numerous patents. It is a global provider of IT solutions and services with operations across USA, Europe and APAC region. It has been providing various digital and IT-related services to its client in the areas of software development, package implementation, application management as well as testing domain, enterprise and digital technologies.

Synergy of merger with KPIT Technologies

Birlasoft (India) Ltd which was an unlisted company, merged and amalgamated with KPIT Technologies Ltd in January 2019. The name of the combined entity, resulting from the merger and the demerger was changed from KPIT Technologies Ltd to Birlasoft Ltd on February 8, 2019. Birlasoft had strengths primarily on the non-ERP digital businesses like CRM, BI & Data Analytics and Application Development while, KPIT IT services possessed core strengths on Enterprise Software Solutions like Oracle, JD Edwards, SAP, Infor etc. along with capabilities in digital transformation services. It is now positioned to capture increasing opportunities in the enterprise digital space. Going forward, the management plans to increase the share of digital services, which is the high margin segment. This will help the company in achieving better operating and PAT margins.

Post merger, Birlasoft won a transformational deal of \$242 million, which has been the largest deal in its history. During FY20, it recorded a \$669 million worth of deals, of which, 64 per cent are new business deals. This has given strong revenue visibility for the next couple of years to the company. The synergy of this merger will benefit Birlasoft in the long-run.

Diversification

Birlasoft's revenue is diversified and sourced from various segments namely, discrete manufacturing, hi-tech and media (17.4

per cent), BFSI (17.1 per cent), energy and utilities (17 per cent), automotive (11.8 per cent), life sciences (25.2 per cent), CPG and retail and process manufacturing (11.4 per cent) as of Q4FY20. As there is no over dependency on any particular industry segment, there is minimal risk of concentrated revenues. It has around 400 active clients across such segments. It will be helpful in the near term as some of the industries would be facing brunt of COVID-19 pandemic across the globe. Birlasoft has overseas branches in USA, Canada, Brazil, UK, Germany, France, Japan, Singapore, South Africa, South Korea, UAE, Australia, Malaysia, Netherland, Poland, Switzerland and Sweden.

Also, considering the service offerings, the company derives revenue from Integrated Enterprise Solutions (32.3 per cent), SAP (16.2 per cent), digital transformation (26.9 per cent), custom application development (12.5 per cent) and other horizontals (12 per cent). With this variety in the service offerings, the company is able to cater to huge number of customers, which have specific needs and require multiple services simultaneously.

Alliances with top brands

Birlasoft has entered into strategic alliances with Oracle, JD Edwards, SAP, Infor and Microsoft. The company is a Microsoft gold-certified partner with competencies in multiple technology areas, including Microsoft Dynamics' partner for enterprise solution implementation and Microsoft Azure Cloud, among others. These alliances have given Birlasoft an edge over competition while, bagging large or strategic deals. It is focussing to strengthen this going forward.

Macro factors

The company has not undergone any disruption due to COVID-19 led lockdown in India. Being part of the service industry, all its employees have adopted 'work from home' alternative, which has led to no disturbance in the performance or any drop in the productivity. This was evident from March FY20 quarter numbers. The management expects some impact in Q1FY21 but

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overall, does not feel that it will create any material impact on its business, going forward. This pandemic crisis has also led the company to cut its capex plans and save its infrastructure costs. The revenue mix in terms of geographical spread includes – USA (81.6 per cent), Europe (8.7 per cent) and RoW (9.7 per cent). As the company earns majority of its revenue in USD, the recent depreciation is proving highly beneficial to the company.

Financial Performance

Birlasoft's consolidated revenue for the quarter Q4FY20 came in at Rs 907.07 crore as against Rs 788.28 crore in the corresponding quarter last year, registering 15.1 per cent YoY increase. EBITDA for the quarter grew by 88.1 per cent YoY to Rs 116.74 crore as against Rs 62.05 crore in the corresponding quarter last year, with a corresponding margin expansion of 500 bps. EBITDA margin for the quarter stood at 12.9 per cent. PAT for the quarter came in at Rs 69.05 crore as against Rs 66.06 crore in the corresponding quarter last year, with YoY increase of 4.5 per cent.

Looking at the full year numbers i.e. for FY20, the revenue

jumped by 29 per cent YoY to Rs 3,290.96 crore while, EBITDA grew by 28 per cent YoY to Rs 391.9 crore. Further, the company reported net profit of Rs 224.34 crore, down by five per cent YoY. It is almost a debt free company with negligible debt on books.

Valuation

The company is trading at TTM P/E of 9x with TTM EPS of Rs 8.10. In 2020, it delivered ROE and ROCE of 11.8 per cent and 18.6 per cent, respectively. Being part of C K Birla group, the company has strong promoter and management backing. The merger with KPIT Tech. will further widen its scope of service offerings and strengthen its client base. Through strong alliances, the company is bagging new deals thereby, giving it a strong revenue visibility. Its life sciences' segment has gained traction and is expected to grow further as new top clients from that industry are approaching Birlasoft for new deals. In the current situation, rupee depreciation is benefiting the company. Considering all the above factors, we see a potential upside of 32 per cent with a target price of Rs 99 for a period of one year.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	3290.97	3942.32	3663.70	3320.05	3224.29
Total Income	3333.96	3982.74	3708.74	3374.05	3252.48
Total Expenditure	2899.05	3488.74	3285.19	3004.76	2790.06
PBIDT	434.91	493.99	423.55	369.29	462.42
PAT	224.35	301.87	261.62	238.55	280.90
Dividend %	0.00	100.00	120.00	110.00	110.00
Adj. EPS(Rs)	8.11	10.56	13.34	12.67	14.96

Quarter On Quarter (Consolidated)

Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	907.07	833.29	8.85	788.29	15.07
Total Expenditure	790.33	725.83	8.89	726.21	8.83
PBIDT (Excl OI)	116.74	107.45	8.64	62.08	88.05
PAT	69.05	72.68	-4.99	66.06	4.51
PBIDTM% (Excl OI)	12.87	12.90	-0.23	7.88	63.32
PBIDTM%	14.95	15.03	-0.53	10.03	49.05
PATM%	7.61	8.72	-12.73	8.38	-9.19
Adj. EPS(Rs)	2.50	2.63	-4.94	2.41	3.73

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