

# INITIATING COVERAGE

# Birlasoft

The next large mid-tier



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## The next large mid-tier

Birlasoft (BSOFT) is a leading mid-tier IT services company with a scalable services portfolio. The recent leadership changes can propel growth as well as improve the quality of revenue. BSOFT's return potential is a combination of both earnings growth trajectory and multiple rerating, supported by an acceleration in growth, resilience & scalability of the services portfolio and strong relative positioning. Over the next five years, we expect BSOFT to attain the current scale of Persistent Systems, which is currently at 1.7x, 2.0x and 3.1x of revenue/PAT/market cap compared to BSOFT. Based on our mid-tier IT assessment framework, client cohort analysis and industry checks, we are positive about BSOFT's growth prospects. We initiate on BSOFT with a BUY recommendation and a TP of INR 530, based on 21x Jun-25E with 20% EPS CAGR over FY23-26E.

- Growth acceleration ahead:** BSOFT's lower annuity mix gets offset by a high deal velocity (higher than mid-tier peers). It also has a strong track record of large client mining (USD 10mn+ logos doubling in the last three years and T10 growth higher than peers), supported by its proactive (non-RFP) wins and account rationalisation. Growth is expected to accelerate ahead with (1) uptick in the BFSI vertical (under-indexed currently); (2) recent leadership refresh (hires from tier-1 IT), which can improve the quality of revenue and new logo addition (empirical evidence in the sector- *Ex: 17*); (3) pipeline build-up indication from uptick in job posting; and (4) reduction in growth skew of manufacturing and life-sciences (80% of incremental revenue historically).
- Resilience and scalability of the services portfolio:** BSOFT's portfolio in Oracle and SAP (large installed base) and the pivot of enterprise to cost optimisation and vendor consolidation can provide greater resilience in the current macroeconomic environment. Our checks suggest an uptick in this segment of technologies, which is supporting mission-critical operations (a less discretionary part of tech spend) and BSOFT's pedigree is ahead of even some tier-1 IT. The next growth frontier for BSOFT is Microsoft (strong track record recently) and Salesforce to scale its cloud footprint.
- Strong relative positioning:** Based on our mid-tier IT assessment framework (*Ex: 25*), BSOFT scores are at the midpoint of the peer set (higher than the median on services portfolio and lower on growth/execution). We reckon that the disconnect with valuation (at the lower end of the peer set) can converge to a median, supported by growth acceleration, large scope to improve margin (sub-con higher than peers), strong cash generation, and capital allocation (improving return metrics).

### Financial summary

YE March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	480	555	595	636	718	806
Net Revenue	35.56	41.30	47.95	52.58	60.30	68.49
EBIT	4.49	5.64	4.38	7.26	8.69	9.96
APAT	3.21	4.64	4.50	5.59	6.70	7.76
Diluted EPS (INR)	11.7	16.8	16.3	20.3	24.3	28.2
P/E (x)	37.2	25.7	26.5	21.4	17.8	15.4
EV / EBITDA (x)	20.4	16.7	20.8	12.9	10.5	8.7
RoE (%)	15.8	19.5	17.9	21.1	21.6	21.4

Source: Company, HSIE Research

BUY

CMP (as on 03 Aug 2023)	INR 434
Target Price	INR 530
NIFTY	19,382

### KEY STOCK DATA

Bloomberg code	BSOFT IN
No. of Shares (mn)	275
MCap (INR bn) / (\$ mn)	119/1,461
6m avg traded value (INR mn)	969
52 Week high / low	INR 435/250

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	57.4	62.0	26.7
Relative (%)	50.8	54.8	14.9

### SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	41.1	41.0
FIs & Local MFs	21.2	24.5
FPIs	11.5	11.3
Public & Others	26.3	23.2
Pledged Shares	NA	NA

Source : BSE

Pledged shares as % of total shares

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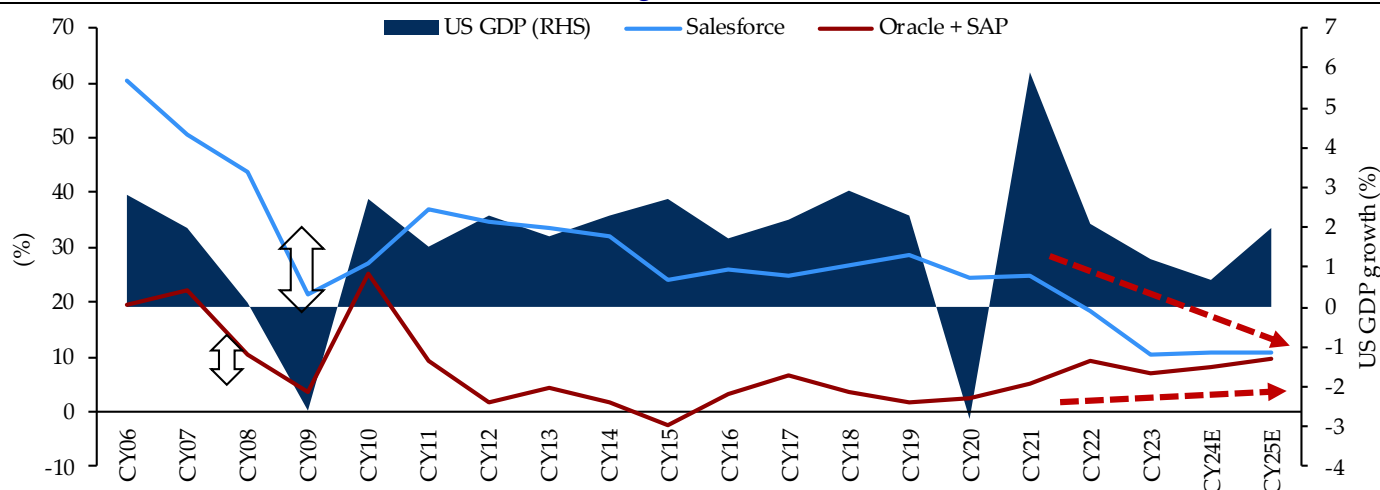
## Focus Charts

Exhibit 1: Mid-tier IT assessment framework: BSOFT vs peers' average

	BSOFT	LTI	MTCL	MPHL	ZENT	COFORGE	SSOF	MAST	PSYS
Growth Grid	●	●	●	●	●	●	●	●	●
Services Portfolio Grid	●	●	●	●	●	●	●	●	●
Execution Grid	●	●	●	●	●	●	●	●	●
Financial & Valuation Metrics	●	●	●	●	●	●	●	●	●
Average	●	●	●	●	●	●	●	●	●

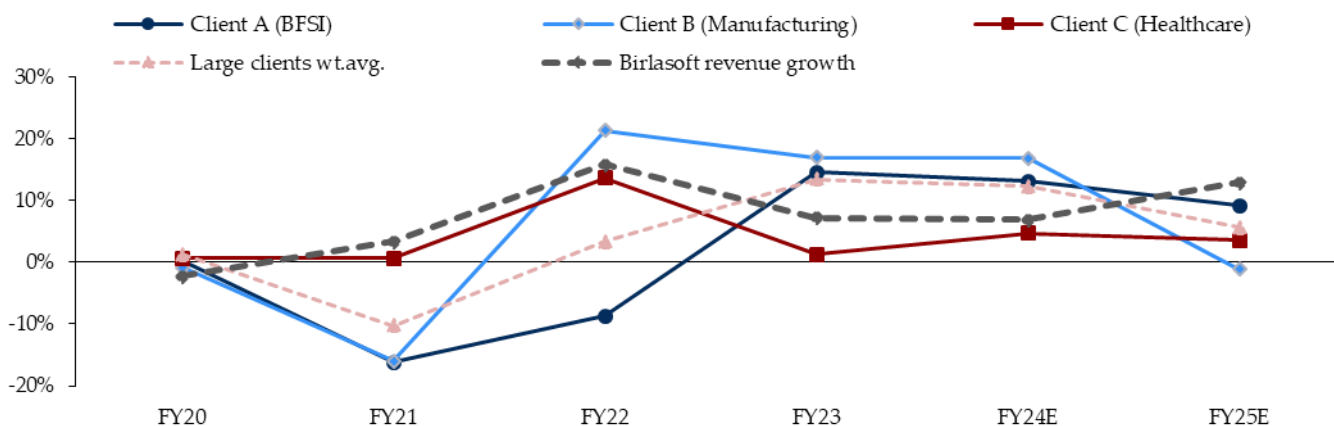
Source: Bloomberg, Company, HSIE Research; LTI & MTCL is based on Q2FY23

Exhibit 2: Resilience in Oracle & SAP in a decelerating macro



Source: Company, HSIE Research, LTI & MTCL is based on Q2FY23

Exhibit 3: Revenue growth trend of Birlasoft and key clients



Source: Bloomberg, HSIE Research

Exhibit 4: Sensitivity of net new book-to-bill to revenue growth

**Net-new book-to-bill (FY21-23)**

- cumulative FY21-23	0.8x
- highest bookings since FY21	1.3x
- lowest bookings since FY21	0.5x

**Deal sensitivity to revenue growth**

Net new book-to-bill (x)	0.65x	0.75x	0.85x	0.95x	1.05x
Revenue growth (%)	10.7%	12.4%	14.1%	15.8%	17.6%

Source: Company, HSIE Research

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## Company at a Glance

YE March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (USD mn)	480	555	595	636	718	806
Growth (%)	3.4	15.7	7.2	6.9	12.9	12.2
Net Revenues	35.56	41.30	47.95	52.58	60.30	68.49
EBITDA	5.29	6.40	5.20	8.13	9.65	11.06
EBIT	4.49	5.64	4.38	7.26	8.69	9.96
EBIT (%)	12.6	13.6	9.1	13.8	14.4	14.5
PBT	4.55	6.17	4.42	7.43	8.99	10.41
APAT	3.21	4.64	4.50	5.59	6.70	7.76
EPS (INR)	11.7	16.8	16.3	20.3	24.3	28.2

### Balance Sheet (Consolidated)

Cash & Equivalents	11.19	12.26	11.17	14.61	18.40	22.99
Debtors	6.32	8.49	9.07	10.24	12.07	13.71
Other Current Assets	3.75	4.16	2.20	2.29	2.45	2.61
<b>Total Current Assets</b>	<b>21.26</b>	<b>24.91</b>	<b>22.44</b>	<b>27.14</b>	<b>32.92</b>	<b>39.31</b>
Net Block	2.57	2.71	2.53	2.40	2.33	2.36
Goodwill & Other Intangible Assets	4.48	4.57	4.90	4.90	4.90	4.90
Other Non-current Assets	0.75	0.73	0.84	0.84	0.84	0.84
<b>Total Non-Current Assets</b>	<b>7.80</b>	<b>8.01</b>	<b>8.26</b>	<b>8.13</b>	<b>8.07</b>	<b>8.09</b>
Creditors	1.32	2.10	2.31	2.54	2.91	3.30
Other Current Liabilities & Provns	5.03	4.50	3.93	4.18	4.60	5.04
<b>Total Current Liabilities</b>	<b>6.34</b>	<b>6.60</b>	<b>6.24</b>	<b>6.71</b>	<b>7.50</b>	<b>8.34</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>22.72</b>	<b>26.31</b>	<b>24.46</b>	<b>28.55</b>	<b>33.48</b>	<b>39.06</b>
Total Shareholders' Funds	21.80	25.83	24.48	28.58	33.50	39.08
Total Debt	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL SOURCES OF FUNDS</b>	<b>22.72</b>	<b>26.31</b>	<b>24.46</b>	<b>28.55</b>	<b>33.48</b>	<b>39.06</b>

### Cash Flow (Consolidated)

Operating Cash Flow (OCF)	5.58	2.81	5.61	5.59	6.29	7.60
Capex + Acq	(0.25)	(0.64)	(0.58)	(0.73)	(0.90)	(1.12)
Free Cash Flow (FCF)	5.33	2.17	5.03	4.85	5.38	6.48
Investing Cash Flow	(4.44)	(3.07)	2.52	(0.48)	(0.55)	(0.66)
Financing Cash Flow	(0.97)	(1.47)	(6.36)	(1.67)	(1.94)	(2.35)
Closing Cash & Equivalents	11.19	12.26	11.17	14.61	18.40	22.99

### Key Ratios

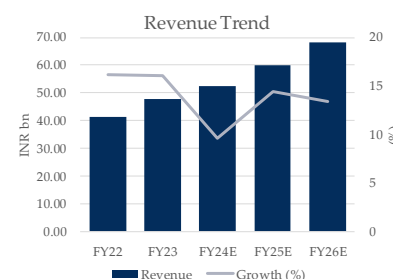
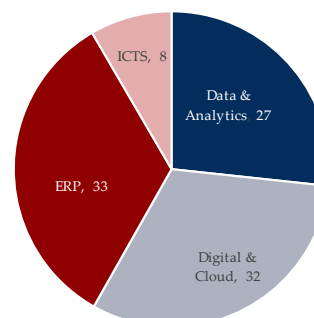
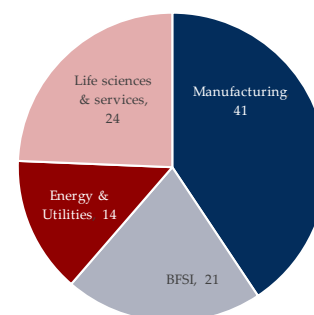
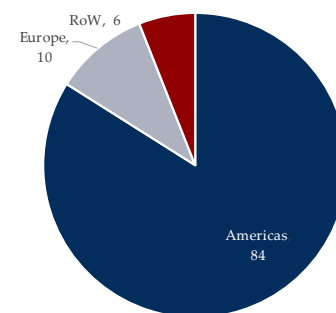
RoE (%)	15.8	19.5	17.9	21.1	21.6	21.4
RoIC (%)	25.9	33.1	24.0	40.1	44.6	47.7
Tax Rate (%)	29.5	24.8	25.1	24.8	25.5	25.5
Debtors (days)	65	75	69	71	73	73
DPS (INR/sh)	3.5	4.5	3.5	5.5	6.5	8.0
P/E (x)	37.2	25.7	26.5	21.4	17.8	15.4
EV/EBITDA (x)	20.4	16.7	20.8	12.9	10.5	8.7
FCF Yield (%)	4.9	2.0	4.7	4.6	5.3	6.7

Source: Company, HSIE Research

### Birlasoft (part of CK Birla Group)

is a leading mid-tier IT company with 12k employees and focus in four verticals—Manufacturing & CMT, E&U, BFSI and Lifesciences, with services spanning from Digital & Cloud, Data & Analytics, IMS, ERP

### Revenue mix by geographies, verticals & services



## SWOT Analysis

### Strengths

- Strong pedigree in ERP and strength in SAP, Oracle, Microsoft services
- Client mining track record (doubled USD 10mn+ clients in three years)
- Diversified vertical base across Manufacturing, CMT, BFSI, Life-sciences and E&U and favourable portfolio mix by geography
- Superior cash generation track record as compared to peers

### Weakness

- Volatility in renewals with lower annuity mix
- Onsite delivery dependence on sub-contracting (higher than peers)
- Lower retention rate compared to peers
- Lower no. of F500 logos as compared to peers with high dependence on mid-market segment

### Opportunities

- Leadership rejig (additions from Tier-1) can accelerate growth supported by new logo addition
- Salesforce, Microsoft cloud services and hyperscaler opportunity
- BFSI vertical new client addition opportunity with large spend pool (Birlasoft currently under indexed in BFSI)
- Large scope to improve operational performance by increasing annuity, optimizing sub-contractors, improving life-sciences segmental margin

### Threats

- Delivery and litigation risk from large clients and wallet share risk in vendor consolidation
- Voluntary attrition risk following the recent leadership change and lag in high performer talent replenishment
- High wage inflation can impact cost of delivery and margins
- Value destructive large inorganic can impair the prospects

## Growth acceleration ahead

### Lower annuity mix necessitates a high velocity of net new deal wins

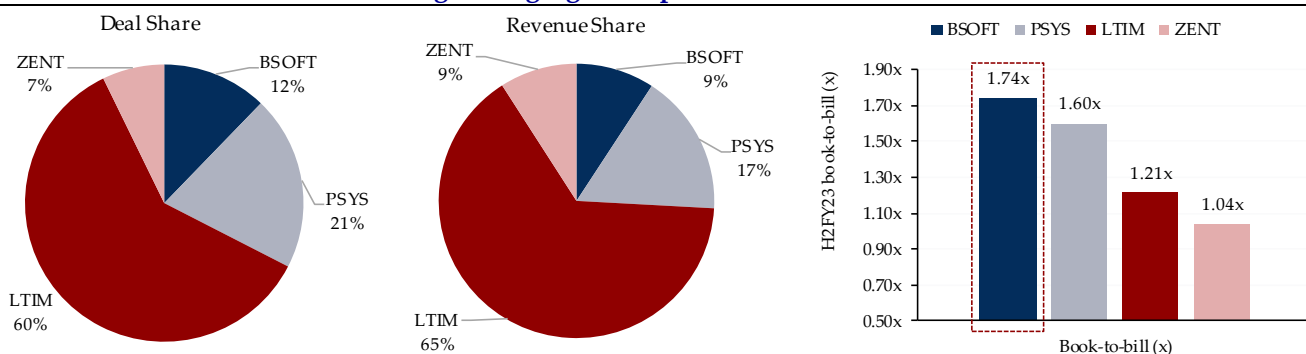
Birlasoft’s (BSOFT) deal win momentum syncs with high-growth peers. Over the past three years, BSOFT’s net-new deal bookings have improved from USD 400mn-450mn annual rate to USD 500mn (TTM). However, the renewal deal bookings have been <USD 400mn, reflecting lower annuity/shorter deals in the portfolio. This can additionally be seen as nearly USD 0.9bn of net-new deal wins over FY21-22 (which doesn’t include the large Invacare deal) and it has led to an incremental revenue of USD 0.1bn only over the same period. This disconnect can be attributed to either higher deal duration in new deals or lower annuity in the current portfolio (a large number of tail accounts); we reckon it’s the latter. The volatility has also been due to the high dependence on growth from the mega-deal, which contributed >50% of incremental revenue over FY20-22.

**Based on our sensitivity of net new deals to revenue growth, the ask rate for BSOFT to deliver low-teen growth is net-new book-to-bill of 0.85x (as compared to the historical average of 0.82x).** More recently, there has been an uptick in bookings in the E&U vertical while bookings in Manufacturing continue to track well. **We also observe an increasing trend of job postings by BSOFT which is also indicative of increased demand.**

### Stronger cumulative book-to-bill than PSYS, LTIM and ZENT

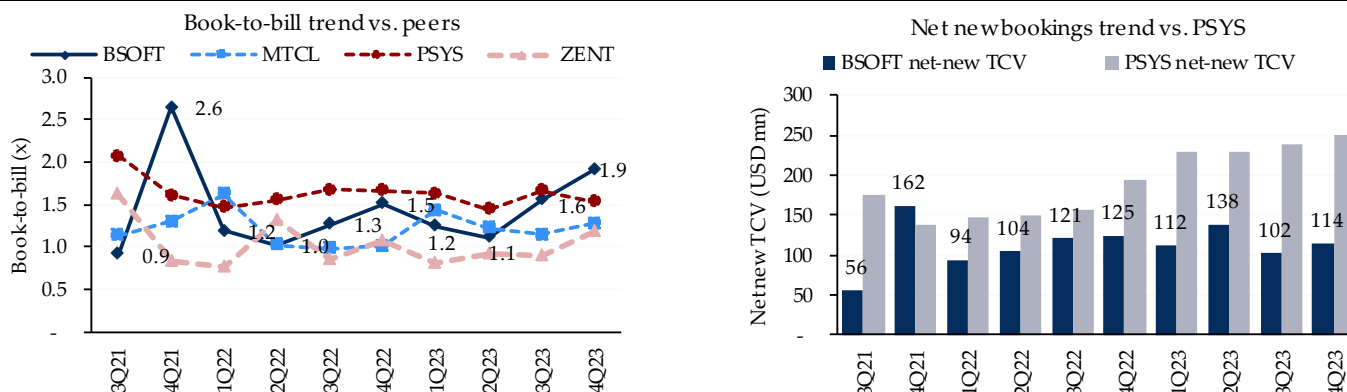
BSOFT has higher deal velocity than stronger peers Persistent, LTIMindtree and Zensar—1.7x total book-to-bill as compared to peers ranging from 1x to 1.6x. If compared with Zensar, BSOFT is similar on scale and number of USD 1mn+ accounts but it has over 200 <USD 1mn logos as compared to just 60 for Zensar.

Exhibit 5: Deal win momentum within range of high-growth peers



Source: Company, HSIE Research; Deal share and revenue share based on H2FY23

Exhibit 6: Deal booking trends in sync with high-growth peers



Source: Company, HSIE Research, book to bill of MTCL represents LTIM for Q3FY23 & Q4FY23

## Exhibit 7: Sensitivity of net new book-to-bill to revenue growth

Net-new book-to-bill (FY21-23)	
- cumulative FY21-23	0.8x
- highest bookings since FY21	1.3x
- lowest bookings since FY21	0.5x

### Deal sensitivity to revenue growth

Net new book-to-bill (x)	0.65x	0.75x	0.85x	0.95x	1.05x
Revenue growth (%)	10.7%	12.4%	14.1%	15.8%	17.6%

Source: Company, HSIE Research

## Exhibit 8: Recent deal wins by BSOFT

Deals	Vertical
Signed a Master Data Management engagement for a Europe-based Lifesciences major	Life sciences
large renewal from an existing BFSI vertical customer in the payments space in the US geo	BFSI
Business Applications and Infra support from a key existing BFSI customer	BFSI
Enterprise Solutions engagement renewal from a US-based F500 organisation in the BFSI vertical	BFSI
SAP S4 Hana implementation program for an international airport in the APAC region	Others
US tech company to displace existing tier 1 competitor for additional business to provide Application Managed Services (AMS)	CMT
US-based manufacturing firm for renewal of ERP Application Support	Manufacturing
UK-based leading payment service provider for the digital asset economy on AML (Anti-money laundering) transaction management	BFSI
US manufacturing company for Application Managed services	Manufacturing
Renewal with large US technology company	CMT
US based energy company for Application Managed services renewal	E&U
Application integration for US automobile company	Manufacturing
Application development for US mobile service provider	CMT
Application Managed services for Asian manufacturing company	Manufacturing
US Medical Technology Company for providing Testing as a services (TaaS)	Life sciences
US technology services provider to global energy, to enhance customer experience by implementations of data analytics and Business Intelligence services	E&U
Automotive and energy storage company for Application Managed Services (AMS)	Manufacturing
US Retailer for end-to-end public cloud adoption capabilities and managed services	Others
US technology services provider to global energy, for roll outs and support of the J D Edwards Enterprise software stack	E&U
Engine and power generation major, for streamlining and support of its Oracle based business-critical application managed services	Manufacturing
Global merchandise retailer for roll out of SAP S/4 HANA retail solution	
Healthcare major for J D Edwards execution, upgrade and additionally implementation of the data and analytics services.	Life sciences
Transportation management company for streamlining and support Oracle based business-critical application managed services	Manufacturing
US industrial equipment for infrastructure support services and roll out of Oracle Cloud SaaS	Manufacturing
Asian farm equipment major for testing of SAP S/4 Hana services, application management services and support	Manufacturing
US telecom major for its revenue application development management and support services	Manufacturing
Global business process services company to integrate and modernize its mobility platform helping it to enhance customer experience by implementation of data and analytics services	CMT
US infrastructure services provider for its application managed services and support of J D Edwards applications stack	Manufacturing
Global healthcare major for application programming interface (API) and support services	Life sciences

Source: Company, HSIE Research



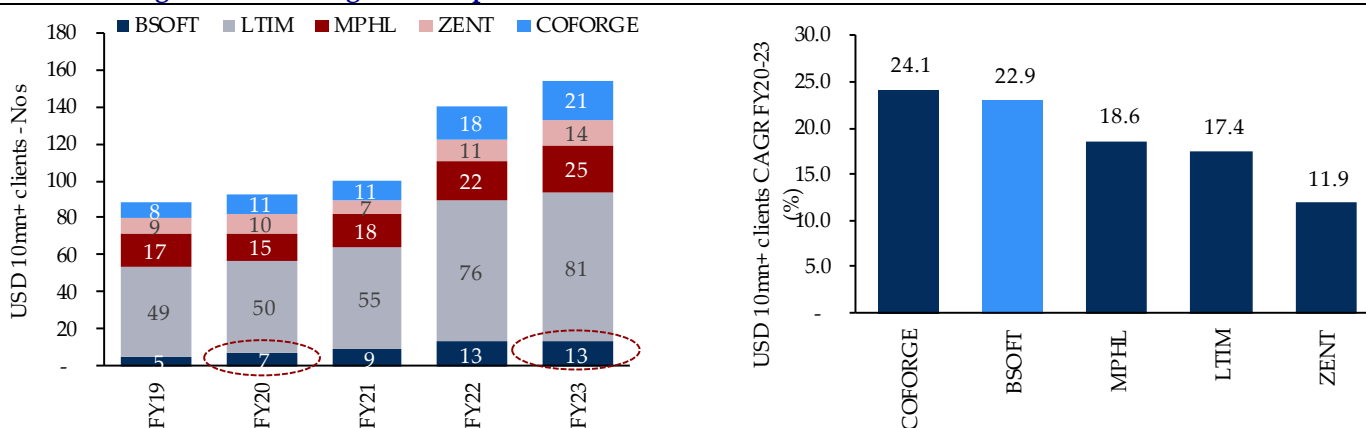
**Large client mining: USD 10mn+ clients have doubled in three years**

BSOFT has focused on adding service lines to its top 40 focused accounts, which contribute to ~75% of the revenue. Our checks suggest that recent quarters have seen the addition of service lines for some top customers. BSOFT’s large client mining prowess is evident with strong growth in its USD 10mn+ account bucket. BSOFT’s USD 10mn+ accounts have doubled in the last three years from 7 accounts in end-FY20 to 13 currently. BSOFT has 13 clients with USD 10mn+ revenue (similar to Zensar’s count) as compared to Mphasis at 25 (~50% of Mphasis’ count) despite revenue being ~30% as compared to Mphasis. BSOFT has an annuity mix of <70% despite a high count of USD 10mn+ accounts, implying large scope to mine which can offset the impact of tail rationalisation.

**Revenue per client is up 70% in the last three years led by proactive deals**

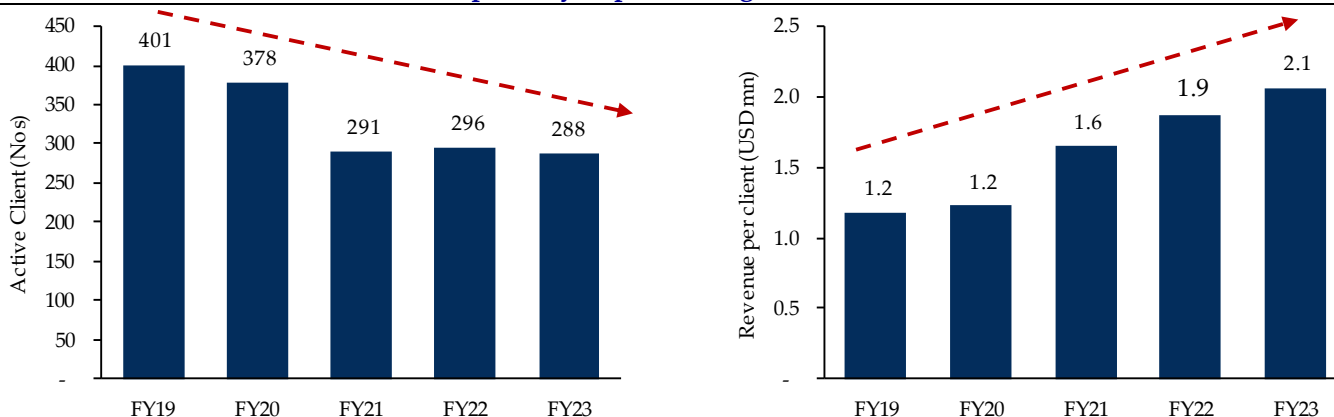
Deal originations are predominantly proactive in nature with ~65% of deals proactive and ~35% of deals are RFP/Rfq based for the company. BSOFT has improved its client mining reflected in its revenue per active client increasing from USD 1.2mn to USD 2.1mn in the past three years. Account rationalization has also contributed to improved run-rate per account - >50% increase in revenue/client supported by ~25% reduction in active client base, yet there exists large scope to rationalise the tail. The difference lies in the USD 1mn+ account bucket – while BSOFT’s count has been flat at 83 over the past three years, PSYS has more than doubled that count to 160 logs.

**Exhibit 9: Large Client mining trend vs peers (USD 10mn+ clients)**



Source: Company, HSIE Research, LTIM CAGR (FY20-23) is on proforma basis

**Exhibit 10: Account rationalisation have partially impacted surge in revenue/client metrics**



Source: Company, HSIE Research

**Large client growth—estimates in sync with historical growth premium**

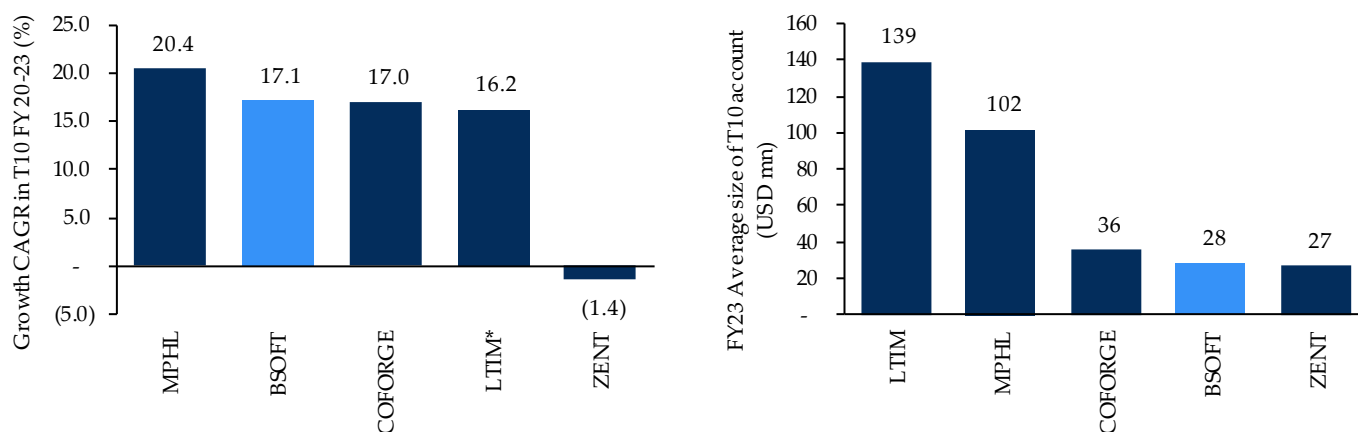
We have plotted the growth trend of some large clients of Birlasoft, observed the historical trend relative to BSOFT's revenue, T10 revenue trend and infer the following.

(1) Revenue of Birlasoft's large enterprise clients has grown at ~5% CAGR over the past four years as compared to ~6% CAGR in Birlasoft's revenue and the next two years' enterprise growth is estimated at ~5% CAGR. (2) CY23E growth of enterprise client revenue is similar to CY22 growth, which provides some visibility for Birlasoft's growth in FY24E.

**Top quadrant large client mining, still large scope to mine relative to peers**

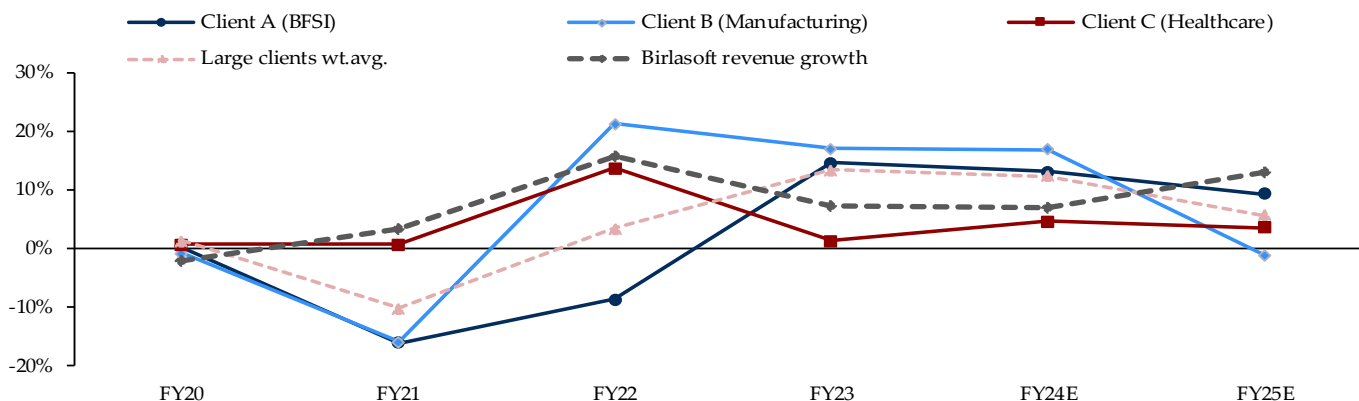
BSOFT's T10 accounts have grown at >17% CAGR over the past 3 years, with only Mphasis having grown its T10 revenue faster. The average T10 revenue per client is the lowest for BSOFT as compared to peers which gives scope for growth.

**Exhibit 11: Top quadrant large client mining yet large scope to mine relative to peers**



Source: Company, HSIE Research, \*LTIM is YoY % growth FY23

**Exhibit 12: Revenue growth trend of Birlasoft and key clients within historical band**



Source: Bloomberg, HSIE Research

**Exhibit 13: Revenue growth trend of BSOFT and key clients**

	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue growth (%) of Client A (BFSI)	0.2%	-16.2%	-8.7%	14.5%	13.0%	9.2%
Revenue growth (%) of Client B (Manufacturing)	-0.8%	-16.0%	21.3%	16.9%	16.8%	-1.2%
Revenue growth (%) of Client C (Healthcare)	0.6%	0.6%	13.6%	1.2%	4.6%	3.5%
Weighted average revenue growth (%) of large clients	1.2%	-10.3%	3.3%	13.4%	12.2%	5.6%
<b>Birlasoft revenue growth</b>	<b>-2.2%</b>	<b>3.4%</b>	<b>15.7%</b>	<b>7.2%</b>	<b>6.9%</b>	<b>12.9%</b>

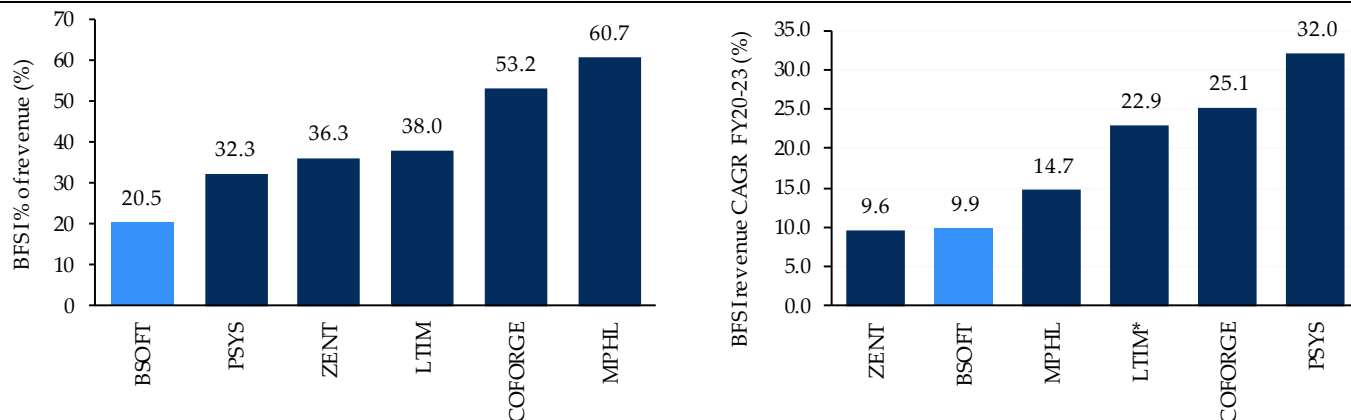
Source: Bloomberg, HSIE Research

**Low revenue mix of BFSI and sub-par growth performance can change ahead**

BSOFT has the lowest share of its revenue from the BFSI vertical as compared to its peers; BFSI revenue share is at ~21% of revenue as compared to peers that range from 30% to 60% of revenue. The lower mix has also mitigated the impact of a sub-par performance in its BFSI vertical as compared to peers historically. Growth for peers has ranged from 10 to 30% CAGR over the past three years as compared to BSOFT lagging at ~10% revenue CAGR.

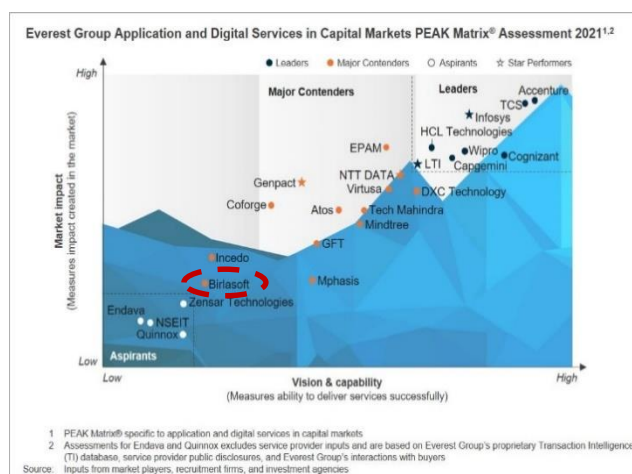
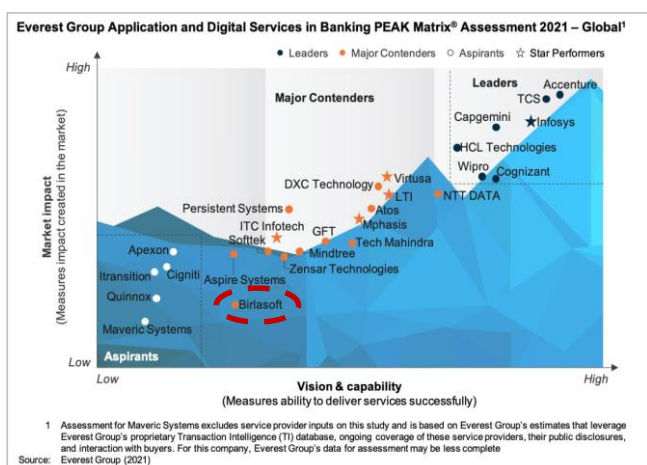
The deal pipeline for BSOFT is healthy without any exposure to the mortgage segment. The company’s BFSI portfolio spans (1) lending, (2) cards & payments, and (3) cybersecurity and GRC services; BSOFT doesn’t have exposure to regional banks in the US. We reckon that the leadership change can accelerate the BFSI vertical and also de-risk the vertical from large client concentration; this has started reflecting in deal flow. BSOFT has embarked on a cultural and organizational transformation program with the leadership change and appointment of new P&L heads across verticals. BSOFT has recently hired ~25 leaders externally and promoted ~25 leaders internally and >90% of the revamp is complete.

**Exhibit 14: BFSI revenue mix as on Q4FY23 and growth CAGR (FY20-23) – likely to accelerate ahead**



Source: Company, HSIE Research, \*LTIM is YoY % for FY23

**Exhibit 15: BFSI ratings in digital services – large scope to improve**



Source: Everest Group

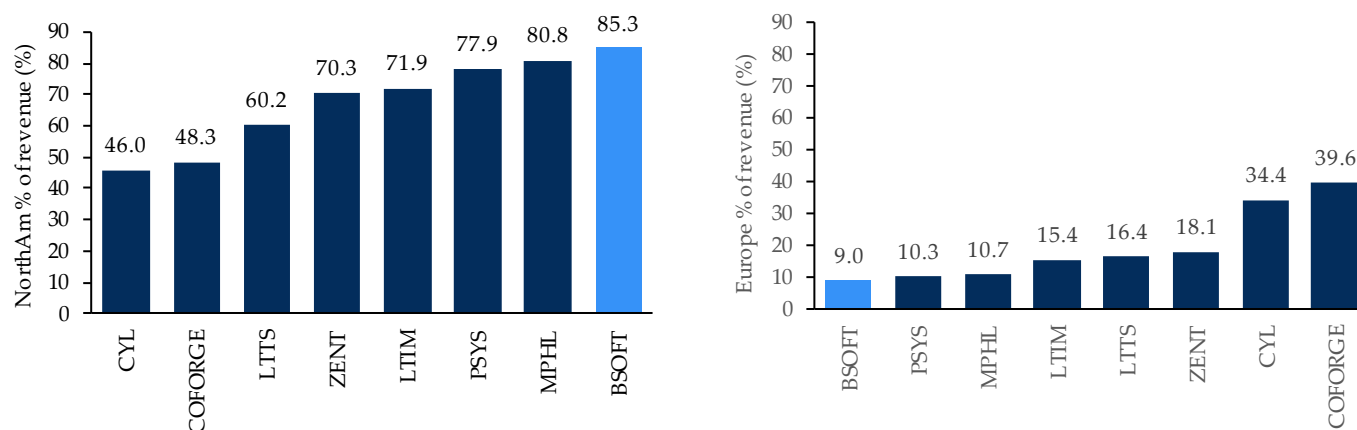
**Broad-based vertical show ahead**

The Manufacturing and Life-sciences verticals have contributed nearly 80% of the incremental growth over the past two years. We believe that this skew will even out with a growth revival in the BFSI vertical while E&U is expected to be soft ahead. Growth in the BFSI vertical is expected to be driven by the lending and payments segment and BSOFT bagged multiple ERP deals in BFSI in the recent quarter. The manufacturing vertical is expected to be the second biggest growth driver following BFSI. BSOFT’s Manufacturing vertical includes customers from the automotive industry (14 OEMs, 30 tier-1s and chip makers). In the Life science vertical, there is a lot of consolidation activity that has been driving deals.

**Low mix from Europe mitigates the macro and FX/geopolitical risk**

Nearly the entire incremental growth in the last two years was from North American geography for BSOFT. The company also has the highest revenue mix from North America as compared to its peers, which also de-risks its business from higher geopolitical and macro volatility in the European geography.

**Exhibit 16: Highest share of revenue from North America geography and low share from Europe geography (Q4FY23)**



Source: Company, HSIE Research,

**Leadership changes to accelerate growth**

BSOFT’s leadership has recently undergone changes. BSOFT appointed Angan Guha as the CEO & MD in Dec-2022; he was earlier CEO-Americas 2 Strategic Market Unit at Wipro (31% of Wipro’s revenue). The company has since then undertaken changes in the front-end and back-end leadership team with external hires as well as internal promotions (nearly half of the senior-level positions filled externally). Recent external leadership hires include people from tier-1s such as Wipro, HCL Tech, and DXC Tech to lead the service lines (ERP, Cloud & Infra) and some verticals.

The company has reset its sales incentive structure to target better quality of revenue (higher margin), a new logo (must-have category) and EN deals. While this may keep the near-term bookings lower, the quality of bookings can improve and support growth acceleration ahead. We have factored total book-to-bill of 1.35x and 1.55x for FY24E and FY25E as compared to 1.46x in FY23. Our sensitivity of net new deal bookings to revenue growth from 0.75x to 0.95x can accelerate revenue growth from ~12% to ~16%.

## Exhibit 17: Mid-tier IT leadership strengthened from Tier-1 IT – median performance of 38% CAGR

Company	CEO	Period	Revenue rate progress	Prior organization & role	Stock Performance during tenure (CAGR %)
L&T Infotech	Sanjay Jalona	2015 to 2022	USD 830mn revenue rate in 2016 to USD 2.3bn in 2022	Infosys (EVP & Head - Hi-Tech, Manufacturing, Engineering)	32%
Mindtree	Debashis Chatterjee	2019 till date	USD 1bn revenue rate in 2019 to USD 1.5bn in 2022; merged with LTI effective Nov'22	Cognizant (EVP & President - Global Delivery and Digital & Technology)	61%
Persistent Systems	Sandeep Kalra	2020 till date	USD 550mn in revenue rate in 2020 to USD 1.05bn currently; aspiration of USD 2bn revenue rate by FY27	Harman, HCL Tech (VP - Healthcare, Americas)	64%
<b>Birlasoft</b>	<b>Angan Guha</b>	<b>2022 till date</b>	<b>USD 600mn revenue rate currently</b>	<b>Wipro (CEO Americas 2 business - BFSI, Manufacturing, E&amp;U)</b>	<b>58%</b>
Sonata Software	Samir Dhir	2022 till date	USD 220mn in 2022 to USD 240mn revenue rate currently; aspiration for USD 1.5bn revenue (incl. DPS) by FY27	Virtusa (CEO Global Markets - USD 1.8bn P&L), Wipro (VP & SAP Practice Head)	53%
Zensar Tech	Sandeep Kishore	2016 to 2020	USD 450mn revenue rate in 2016 to USD 500mn revenue rate in 2021		2%
Zensar Tech	Ajay Bhutoria	2021 to 2022	USD 590mn in 2021 to USD 580mn in 2022	Cognizant (Global Head - Consumer goods, Retail, Travel & Hospitality)	-6%
Zensar Tech	Manish Tandon	2022 till date	USD 580mn in 2022	Infosys (EVP - Life science, Healthcare, Insurance and Hi-Tech), CSS Corp (CEO)	108%
Mastek	John Owen	2016 to 2021	USD 75mn revenue rate in 2016 to USD 250mn revenue rate in 2021	Serco (ED, Business development & Marketing)	62%
Mastek	Hiral Chandrana	2021 till date	USD 280mn in 2021 to USD 320mn currently; aspiration of USD 1bn by 2028 (organic 20% CAGR)	Wipro (SVP & Global Head - Business application & Digital services)	-6%
Coforge	Sudhir Singh	2017 till date	USD 440mn revenue rate in 2017 to USD 1bn currently	Genpact (COO - IT services & Capital Markets)	43%
Virtusa	Santosh Thomas	2021 till date	USD 1.5bn revenue rate in 2021	Cognizant (President - Global Growth Market)	NA
Hexaware	R Srikrishna	2014 till date	USD 400mn revenue rate in 2014 to USD 1.2bn in 2022	HCL Tech - President - Infra services	21%
Firstsource	Vipul Khanna	2019 till date	USD 550mn revenue rate in 2019 to USD 750mn currently	Cognizant - EVP & Head Business Process & Platforms	31%
eClerx	Kapil Jain	2023 till date	USD 330mn revenue rate	Infosys - EVP, Head Sales BPM	27%
ITC Infotech	Sudip Singh	2019 till date	USD 280mn revenue rate in 2019 to USD 380mn in 2022	Infosys - Global Industry Head - E&U	NA

Source: Company, LinkedIn, HSIE Research, Note: Stock return is absolute return for duration &lt;1 year

## Resilience and scalability of services portfolio

### Cost optimisation focus by enterprise aligned with a services portfolio

The current macro scenario is leading to enterprises pivoting their tech investments to cost optimization and consolidation of vendors. In the prior recessionary environment, the deceleration in front-end and cloud-based services was steeper than in legacy services. What's implied is that despite much higher growth by cloud providers the growth deceleration from recent highs can be significant for Salesforce, Snowflake, Workday, etc. However, for providers such as SAP and Oracle, the deceleration may not be as steep, or in some cases it may even accelerate. The recent trajectory of Salesforce and hyperscalers decelerating while Oracle (organic) accelerates may continue as a trend. BSOFT's pre-existing relationship with these technologies (among the highest no. of SAP specialisations and large Oracle services portfolio) and investments for solution development provide resilience to its services portfolio that is higher indexed to ERP.

#### GFC 2008 case

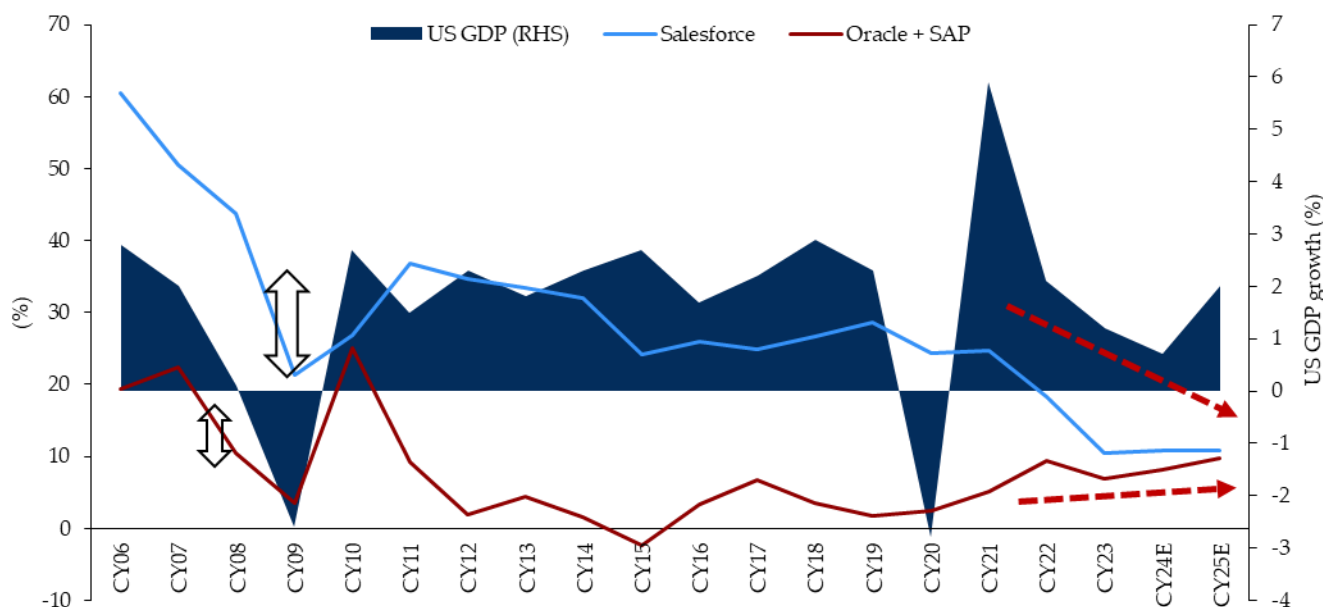
In CY09, with the US economy declining, Salesforce's revenue growth decelerated from 44% pre-GFC to 21% in CY09 and recovered to 33% CAGR over the subsequent years. In comparison, the combined revenue of SAP and Oracle decelerated from 10% pre-GFC to 3.5% in CY09 and subsequently recovered to 12% CAGR over the next three years. **It's interesting to note that while the cloud was in its nascent stages in Dec'08, Oracle won its largest cloud computing (on demand) win against Salesforce.**

SAP Annual Report 2009: "Customer buying behaviour shifted to an emphasis on smaller transactions and projects with immediate return"

Oracle Q2 2009 Earnings: "Middleware sales continued to grow very strongly, even in this economic climate"

While Salesforce maintained its guidance (~10% growth for FY24E), it has highlighted a challenging and uncertain tech buying environment and greater customer scrutiny of tech investments.

Exhibit 18: Resilience in Oracle & SAP as compared to steep deceleration in Salesforce



Source: Bloomberg, Company, HSIE Research

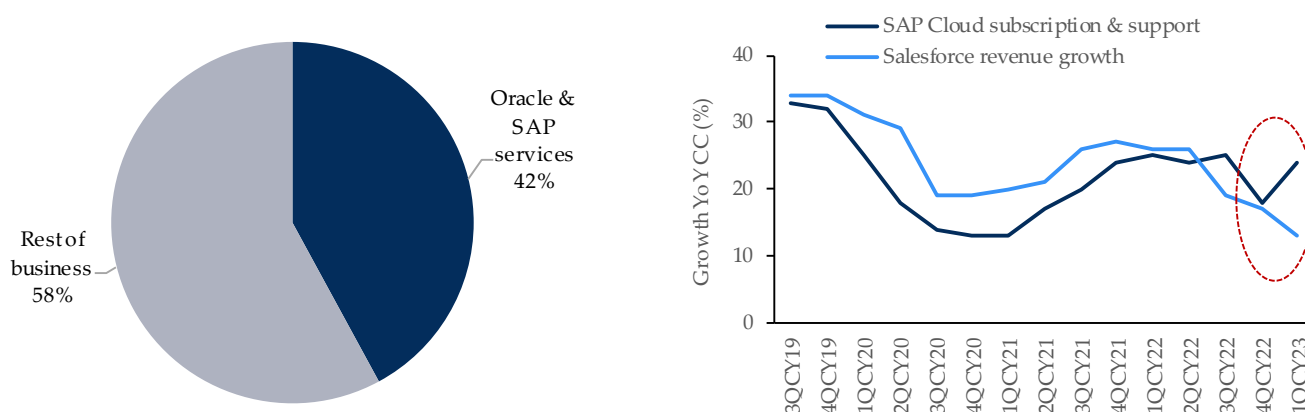
**Exhibit 19: Cost optimization focus supporting legacy tech**

Company	Management Commentary
Infosys	"For cost optimization, we see good discussions of that with our clients. In some of the industries, we see more of that and others at a moderate level."
Wipro	"We should certainly expect that a lot of the investments that our clients need to do in technology will require a business case, and therefore will have a stronger focus on cost optimization, on productivity gains, and so on. That's possibly where I see an evolution of the of the pipeline....As of today, our pipeline has, a well-balanced, mix of transformation growth and cost take-outs engagements."
LTIMindtree	"Our strong performance this quarter reaffirms our relevance to our clients across the dual objective of revenue maximization and cost optimization."
Persistent	"A number of our customers are keenly watching the macroeconomic environment unfold and there are discussions about cost optimization impact of a stronger dollar on global companies' financials, bracing for an overall economic slowdown over the next several quarters and being prudent about longer-term spend commitments."

Source: Company

BSOFT's services portfolio is comparable and in some cases even stands out vs. large mid-tier competition. The company has depth in SAP and Oracle horizontals, courtesy its legacy of ERP services as part of KPIT's IT services. Since its merger with erstwhile Birlasoft, the focus on cross-selling has increased supported by growing partnerships with Microsoft and Salesforce. BSOFT is a Gold partner of SAP and a global AMS partner of SAP with 2,200 SAP consultants in its workforce. **As the nature of deals shifts towards cost optimization, SAP and Oracle services may see a relative uptick.**

**Exhibit 20: High skew of business towards Oracle & SAP services; SAP Cloud revenue growth steady relative to deceleration in Salesforce**



Source: Company, HSIE Research. Note: SAP Cloud implies growth in SAP's Cloud subscription and support revenue

**Exhibit 21: High skew of business towards Oracle and SAP – M&A history**

Target	Year	Consideration	Revenue	Domain & Rationale
Panex Consulting	2003	USD 1.7mn	USD 7.5mn	SAP consulting
Pivolis	2005	EUR 1.75mn	USD 1.5mn	Offshore consulting service, entry to French geography
Solv Central	2005	USD 2mn	USD 3.5mn	Business Intelligence solutions provider with 30 employees
Sparta Consulting	2009	USD 38mn (INR 1.80bn)	USD 25mn	SAP solution provider
CPG solution	2010	USD 13.2mn	USD 11mn	Oracle consulting
SYSTEME	2011	USD 23mn (INR 1.30bn)	NA	JD Edwards solutions provider acquired from CMS Infosystems adding clients - Lafarge SA, Praxair Inc
Learn2Perform	2013	NA	NA	SuccessFactors consulting, education and sales partner
EnablePath*	2014	NA	NA	CRM software solutions

Source: Company, HSIE Research, \* acquired by Birlasoft

## Strong momentum in Oracle Cloud and SAP Cloud favourable

In the latest quarter, Salesforce growth has decelerated to 13% YoY to USD 8.2bn, while Oracle Cloud services (organic) were up 25% YoY. Oracle's total cloud services growth (including Cerner acquisition) was up 50% YoY at USD 15.9bn TTM basis. SAP cloud revenue grew 22% YoY CC and S/4 HANA cloud revenue was up 79% YoY CC. SAP's current cloud backlog is up 25% YoY and a strong pipeline is seen for CY23 which supports its 23-26% CC growth outlook for SAP cloud. As per the company, customers are not stopping or pausing ERP migration or supply chain migration. **We believe that the large installed-based, mission-critical operations and the non-extension of the timeline for S/4 HANA migration is an opportunity for services partners and will drive growth for BSOFT.**

### Exhibit 22: Key Partnerships & Alliances of BSOFT

Partners	Partnership Tiering	Key service offerings	Programs	Clients
Oracle	Platinum partner - 20 specialization & 5 advanced specialization & Cloud Select Partner	JD Edwards, E-Business Suite, Fusion Middleware, Master Data Management, DBA, Product Lifecycle management, BI, Supply chain planning & optimisation, Netsuite, Logistics & Compliance, User Productivity kit, Cloud, XaaS	Implementation of Product Master Data Management for healthcare company, IT application and infrastructure consolidation by chemical company	ThermoFisher, Sembcorp Marine, SCG Logistics, Dorf Ketal Chemicals, Fleetguard Filter, Atlantis (The Palm), Crane Aerospace, United Green, BE Aerospace
SAP	Global SAP AMS Partner, 2,200+ SAP consultants, SAP Gold Partner	Implementation, AMS, SAP Product support, Digital transformation, SAP CX, SAP SuccessFactors, SAP Big Data & Analytics	Deployment of SAP Manufacturing integration & intelligence application to streamline production of industrial ventilation provider, Product release of medical device accelerated with improved business process supported by SAP HANA	Varian Medical System
Infor	Alliance Partner, 300 Infor professionals	Migration and implementation of Infor Cloudsuite ERP	Application Managed Services for manufacturer of metal roofing company, IT modernisation for American packaged food company	Englert Inc.
Microsoft	Strategic Cloud Alliance (ITeS 360) partner with Microsoft	Applications (Dynamic implementation) & Infra (Cloud migration, SAP on Azure), Data & AI, Business Applications & Modern workplace, Dynamic consulting, implementation, support & maintenance	Modernising of HR app using Azure architecture with feature integration	NA
AWS	Advanced Consulting Partner with AWS	Application development & modernisation, Data analytics AI/ML, Migration to AWS, SAP on AWS	Migration of electronic medical records & images to AWS, development of AI/ML based regulatory platform, streamlined the submission process through automatic intake of data from ACORD Forms	American Capital Assurance Corp, Regulativ.ai
Salesforce	Preferred Vendor	Customization, Implementation, and Optimization Services		NA
Google	Service Partner and Reseller Partner	Cloud migration services		NA
ServiceNow	Specialist Partner	Implementation services and application development		NA

Source: Company, HSIE Research



### Focused cloud and hyperscaler footprint – next growth wave

Hyperscalers are a key growth driver for BSOFT and the company expects consistency in the momentum; currently cloud-related revenue is >30% of the company's revenue. In 2021, BSOFT was the finalist in Microsoft's Partner of the Year, following the partnership that BSOFT signed with Microsoft in 2020. Microsoft services is USD 120mn+ revenue rate for BSOFT and it's reached the target a year ahead of plan. Birlasoft is a T25 US-managed services partner for Microsoft. Hyperscaler focus of the company is largely centric around Microsoft and in specific segments within AWS.

BSOFT has higher Salesforce certifications than peers such as Mphasis. BSOFT's Salesforce practice is <USD 30mn and the company is developing capability in Commerce Cloud and Marketing Cloud. Growth drivers in the practice include vertical solutions and proactive account mining.

#### Exhibit 23: Key partnerships and alliances of BSOFT

(Nos)	BSOFT	LTIM	PSYS	MPLH	ZENT	COFORGE
Projects completed	768	659	483	32	89	90
Certified Experts	291	1,677	2,449	189	310	327
<b>Certifications</b>	<b>529</b>	<b>4,918</b>	<b>5,631</b>	<b>398</b>	<b>810</b>	<b>613</b>
- Admin certifications	155	1,316	1,657	123	267	143
- Architect certifications	49	545	425	28	39	92
- Consultant certifications	81	1,093	889	31	150	106
- Developer certifications	235	1,796	2,563	201	331	265
- Marketing certifications	9	168	97	15	23	7

Source: Company, HSIE Research

### Oracle services leadership and expanding opportunity

BSOFT is a Platinum partner of Oracle with 20 specialisations and five advanced specialisation services. Oracle Platinum is the highest tiering in the Oracle partner network. Oracle Platinum partners get priority access to Oracle's internal development teams and executives and BSOFT's Oracle practice is USD 150mn annual rate including the cloud component. BSOFT's Oracle expertise is higher than some larger peers such as HCL Tech and KPMG. Within its Oracle portfolio, 90% is ERP and the remaining 10% is HCM.

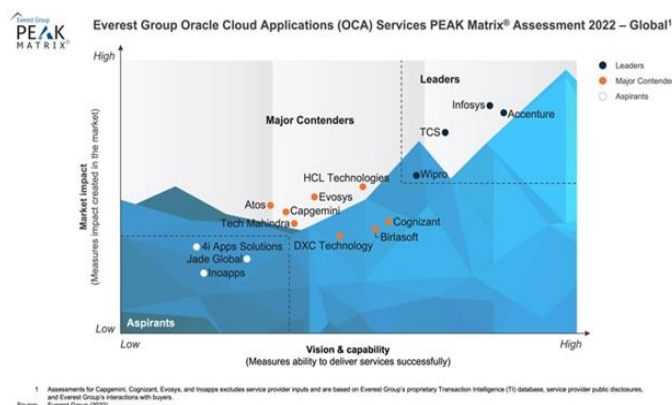
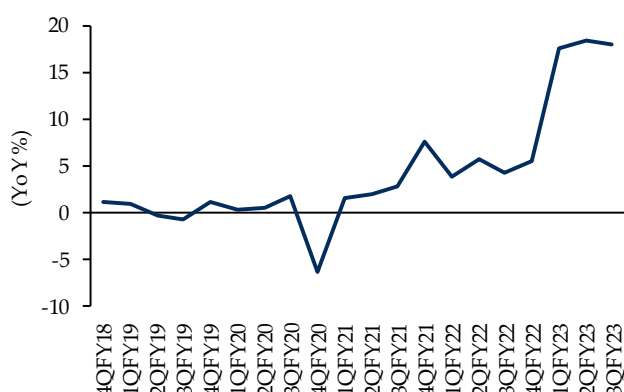
Oracle's SaaS revenue has grown at 17% CC organic and Oracle expects its total cloud business to exceed USD 20bn annual run rate next year, which will lead to a large downstream opportunity. We believe that BSOFT's integrated Oracle offering positions the company to benefit from this opportunity. Oracle's organic remaining performance obligation (an indicator of revenue growth) has accelerated from 17% YoY to 22% YoY in the previous quarter reflecting a large opportunity for SIs.

Based on our checks, BSOFT's Oracle portfolio has a higher tilt towards the traditional JDE and E-Business suite offerings as compared to LTIM which has a larger mix of Oracle Cloud in its Oracle services portfolio. BSOFT has a stronger presence in migration to the cloud as compared to cloud-native application development. In any case, BSOFT has a much larger Oracle services portfolio than peers such as Zensar and Coforge. In comparison, some of the leaders in Oracle practice are Accenture with 10k FTEs, Capgemini with 1-5k FTEs, Cognizant with 5-10k FTEs, Deloitte with >10k FTEs, DXC Tech with 1-5k FTEs, and Infosys with 5-10k FTEs.

**Exhibit 24: Birlasoft among top Oracle Partners with Expertise (Nos)**

	Cloud Build	Cloud Service	Cloud Sell	License & Hardware
TCS	2	136	28	38
Infosys	2	48	59	26
Cognizant	2	12	46	25
Tech Mahindra	1	8	23	30
LTIM		35	48	36
Wipro	2	15	47	56
Accenture	1	40	76	87
DXC	1	22	28	45
IBM		9	45	36
Deloitte	1	25	57	37
Capgemini		19	15	27
<b>Birlasoft</b>		<b>10</b>	<b>0</b>	<b>1</b>
KPMG		31	20	16
HCL Tech	2	4	18	34
Zensar	1	2	9	8

**Exhibit 25: Oracle revenue growth trend and strong tiering of BSOFT**



Source: Company, Everest, HSIE Research

## CASE-1

### Problem Statement

Insurance firm was struggling to effectively manage the massive volume of daily broker submissions. By reviewing these submissions manually and not automating this process, the firm was missing out on a massive revenue growth opportunity.

### Challenges

Extraction of data from multiple sources, manual interventions not efficient enough to manage the huge volume of submissions, several errors that occurred in data validation while capturing structured and unstructured data

### Solution

Birlasoft used AI/ML to speed up underwriting process, streamlined the submission process by automatic intake of ACORD forms & other docs, tracking submission data on dashboard

### Outcome

Improvement in underwriting KPIs, quicker broker clearance and spend reduction on lower manual efforts

Source: Company

## CASE-2

### Problem Statement

Sub-par user experience of the HR based app for 100k users for leading Indian conglomerate

### Challenges

HR app was focussed more on process than unified user experience; UX for functionalities of virtual assistance of employees, leave management & attendance regularisation, learning management, appraisal management, policy portal and email management

### Solution

Provisioned multiple modules and microservices through the app as services. Integration of key feature of ChatBot, VoiceBot with Microsoft Azure architecture. Enabling support for ChatBot, Voice Bot, Scan & Attach, and Share Feedback functionalities

### Outcome

Higher ratings and employee feedback and enhanced adoption by 100k employees of the client

Source: Company

## CASE-3

### Problem Statement

Production and inventory inefficiency of industrial ventilation equipment provider

### Challenges

Higher degree of manual intervention led to escalated costs across inventory management, order management, product testing, and shipments. Incoherent flow of information between design and production floor. Manufacturing inadequacy to build multiple variants of product category based on client requirement of features

### Solution

Deployment of SAP Manufacturing Integration & Intelligence applications, integration of machine at shopfloor with ERP, dashboard customisation for each product line

### Outcome

Accurate and real-time production data and lean production process leading to increase in production efficiency, reduction in excess inventory

Source: Company

## Strong positioning within mid-tier peers

### Above mid-tier median on service portfolio

We have assessed BSOFT compared with mid-tier IT across ~35 parameters of growth, services portfolio, execution capabilities, and financial & valuation. Growth parameters include growth trends in revenue, profit, headcount, deal bookings and large accounts. Services portfolio parameters include hyperscaler and digital portfolio, legacy IT portfolio, advisor ratings, account concentration, size and potential. Execution parameters include cost of delivery, onsite cost metrics, sub-contracting dependence, productivity and employer ratings. Financial parameters include the equal weight of valuations and financial metrics.

**Based on the mid-tier IT assessment grid, BSOFT scores above ZENT, MAST and MPHL.** From a services portfolio standpoint, only erstwhile LTI/MTCL, PSYS and COFORGE are ahead of BSOFT; there’s a distinct lead as compared to MPHL, SSOF and MAST. Based on our execution framework ratings, the variance within peers is large and BSOFT is below the mid-point (Invacare impact also reflected here). Overall, BSOFT features above the peer median in services portfolio, above the median in financials & valuation and below the median in execution and growth framework.

Exhibit 26: Mid-tier IT assessment framework: BSOFT at peers' average

	BSOFT	LTI	MTCL	MPHL	ZENT	COFORGE	SSOF	MAST	PSYS
Growth Grid	☐	☐	☐	☐	☐	☐	☐	☐	☐
Services Portfolio Grid	☐	☐	☐	☐	☐	☐	☐	☐	☐
Execution Grid	☐	☐	☐	☐	☐	☐	☐	☐	☐
Financial & Valuation Metrics	☐	☐	☐	☐	☐	☐	☐	☐	☐
Average	☐	☐	☐	☐	☐	☐	☐	☐	☐

Source: Company, HSIE Research, LTI & MTCL is based on Q2FY23

### Higher than median on services portfolio and financial and valuation grid

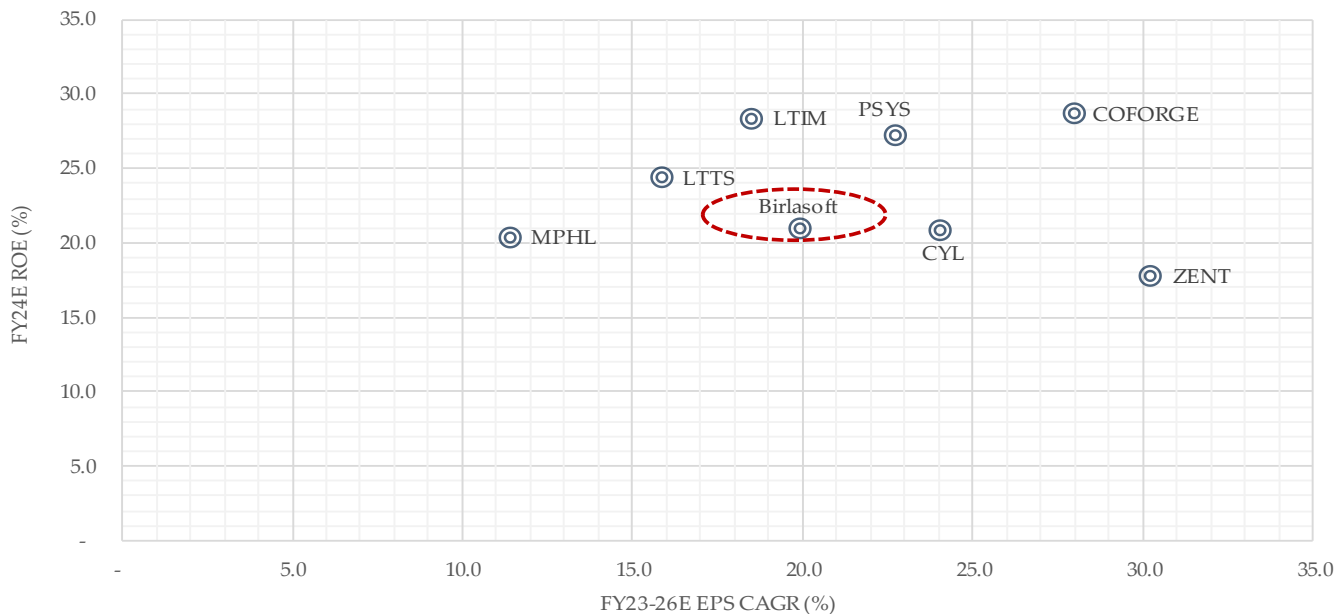
Based on the scorecard for mid-tier IT key inferences are: (1) BSOFT scores at the mid-point within the peer set. LTIM, PSYS, COFORGE, and SSOF score higher, while BSOFT scores above MPHL, ZENT and MAST. (2) BSOFT scores lower than the peer median on growth and execution. (3) BSOFT scores higher than peers' median on the services portfolio grid and on the financial & valuation grid.

Exhibit 27: BSOFT at mid-point and above on services portfolio and financials & valuation



Source: Company, HSIE Research, LTI & MTCL is based on Q2FY23

Exhibit 28: Mid-tier IT EPS/RoE grid



Source: Company, HSIE Research

Exhibit 29: BSOFT most attractive on EV/Revenue and EV/EBITDA - valuation grid

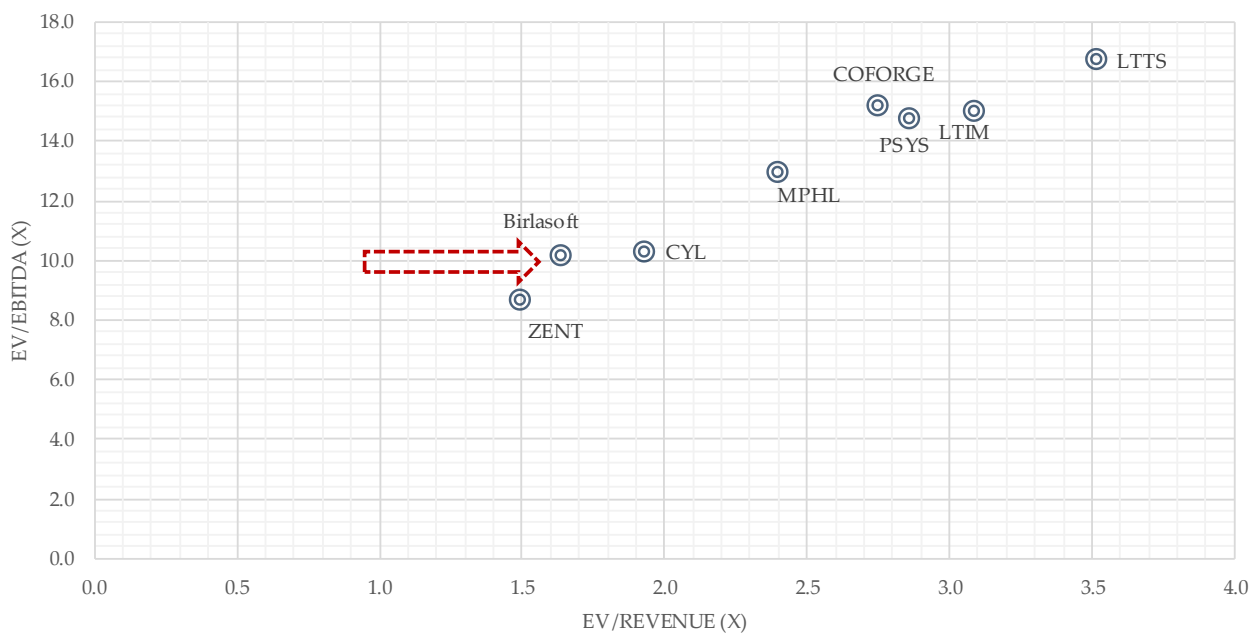
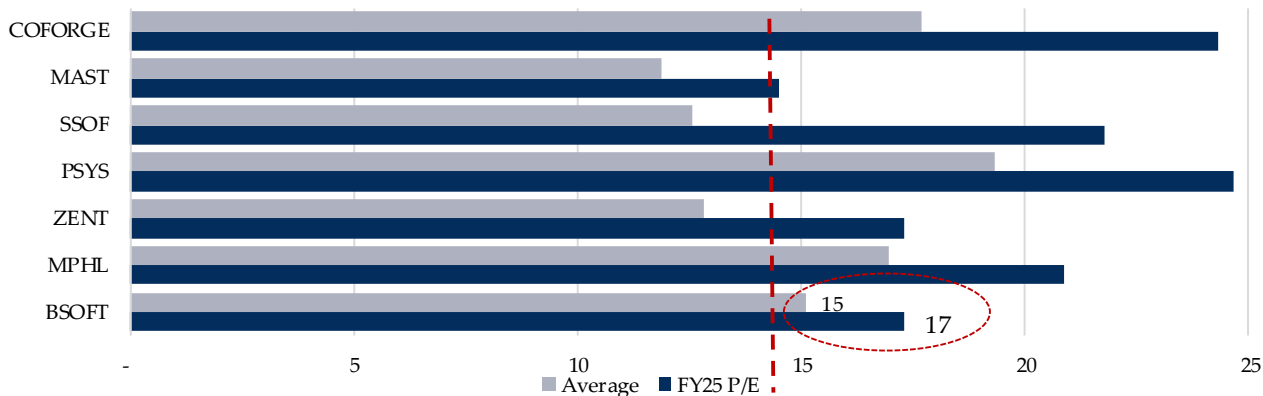


Exhibit 30: Valuation discount to peers and its historical average



Source: Company, HSIE Research; BSOFT average from Jan'19 (post merger-demerger)

### Large scope to improve margin – 200bps improvement ahead

BSOFT has higher other expenses and sub-contracting than peers, which provides large room for optimisation and improvement in margins. The company's attrition has moderated by 15pp from a high of 34% in Q4FY22 to 19% currently, yet remains above the pre-covid industry average. The scope for attrition to trend towards the prior average will aid margins ahead. In the interim, however, attrition can take longer to come off with the trickle-down impact of leadership changes. Average salary expense has increased from INR 1.9mn to INR 2.3mn over the past two years (~20% increase). BSOFT's impact on margin has been higher than peers due to a larger increase in median remuneration & onshore costs due to high attrition, which mitigated the positive impact of the increase in offshore delivery.

Margin improvement to reflect in H2FY24 is based on (1) lower supply-side challenges with attrition moderating; (2) improving business-mix as the BFSI segment is expected to outpace other verticals and on recovery in the life-science segmental margin, (3) optimisation of other expenses with a reduction in sub-contracting and SG&A leverage. We've built ~200bps margin improvement for FY23-25E over FY23 normalised margin, supported by ~120bps from other expenses and lower attrition supporting better gross margin; factored EBITDAM at 15.5% and 16.0% for FY24E and FY25E respectively.

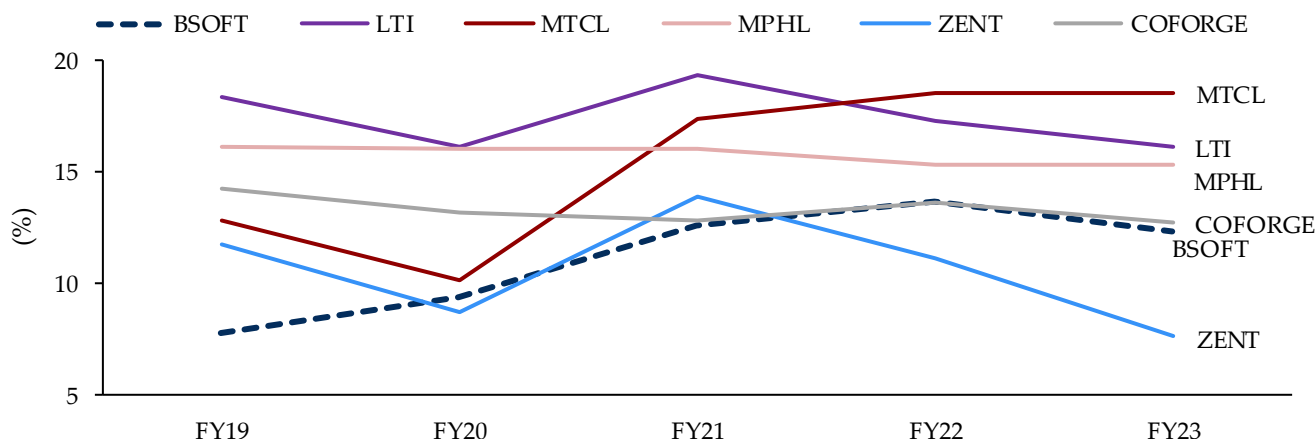
### Improving revenue productivity despite the increase in offshore delivery

Over the past three years, BSOFT's headcount has increased by 19% from 10.2k in FY20 to 12.2k currently, which includes the developer headcount going up 20% from 9.1k to 11k over the past three years. Importantly, revenue per employee is at USD 49k, which is higher than the FY20 level of USD 45k, despite the offshore revenue mix increasing from 41% to 51% since then. The revenue productivity improvement despite offshore shift can be on the basis of better rate cards, higher automation and an increase in sub-contracting. Birlasoft's sub-contracting is materially higher than peers at mid-teens % of revenue as compared to peers' average at ~12% of revenue; this is a margin lever over the medium term as the company scales and streamlines its delivery organization. We reckon that between sub-contracting and other expenses, there exists scope to improve margins by ~200bps (we're building ~120bps from this).

### Strong cash generation, attractive FCF yield

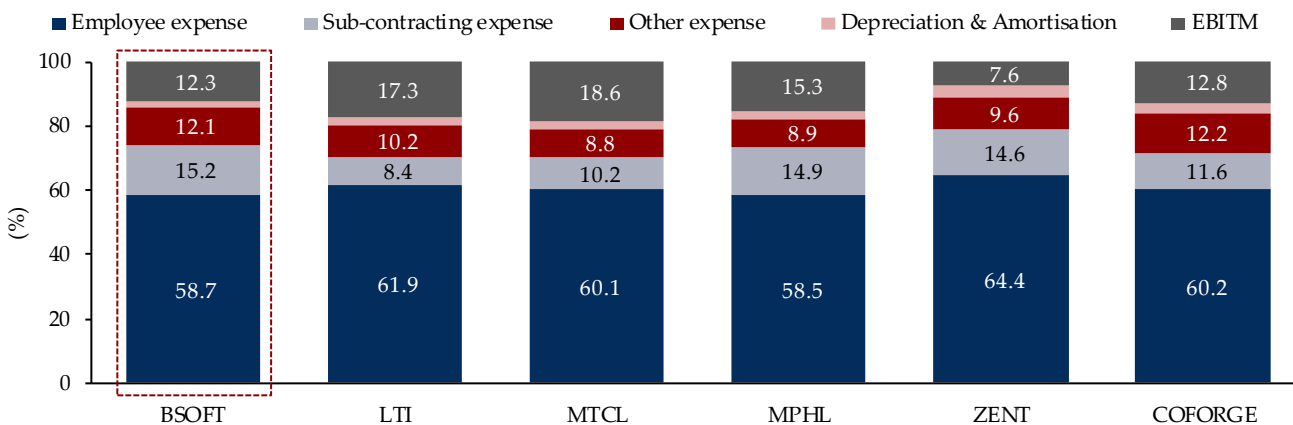
BSOFT has a strong track record of cash generation with FCF/APAT at 100% over FY20-23, which has been higher than peers such as LTIM, Mphasis and Cyient. BSOFT has among the highest FCF yield compared to mid-tier peers at ~5% and its valuations are attractive relative to peers on EV/revenue and EV/EBITDA basis – at ~50-60% discount to mid-tier peers. The company's capital allocation has supported its improvement in RoE/RoIC metrics. BSOFT has paid out >55% of the cash generated in the last three years and 10% towards Capex.

Exhibit 31: Expense compared to peers (% of revenue)



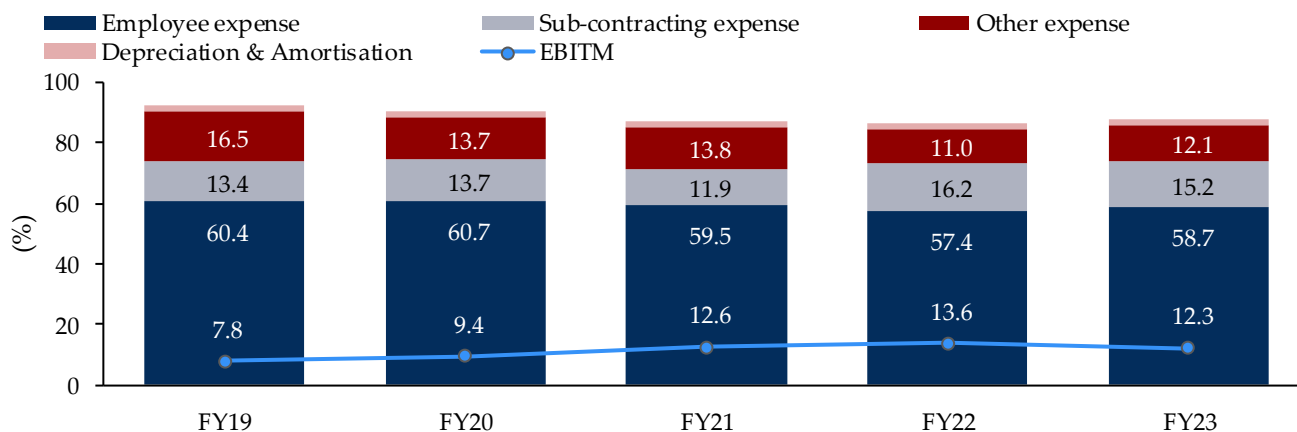
Source: Company, HSIE Research. Note: Q2FY23 margin for LTI and MTCL, BSOFT margin adjusted for one-time impairment in Q3FY23

Exhibit 32: Expense compared to peers (% of revenue)



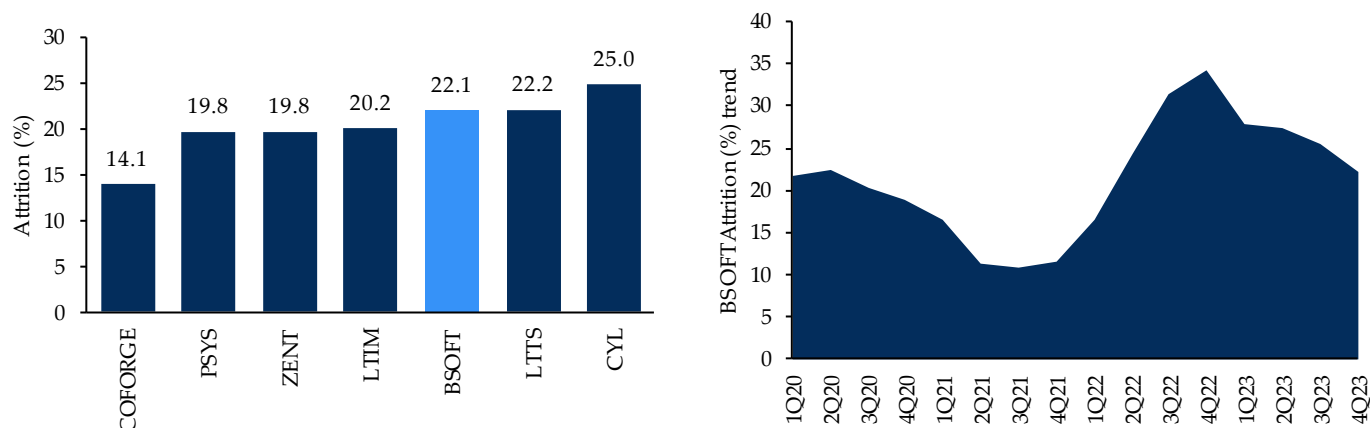
Source: Company, HSIE Research. Note: FY22 for LTI & MTCL, rest all FY23

Exhibit 33: BSOFT expense trend –large scope to optimize sub-contracting (% of revenue)



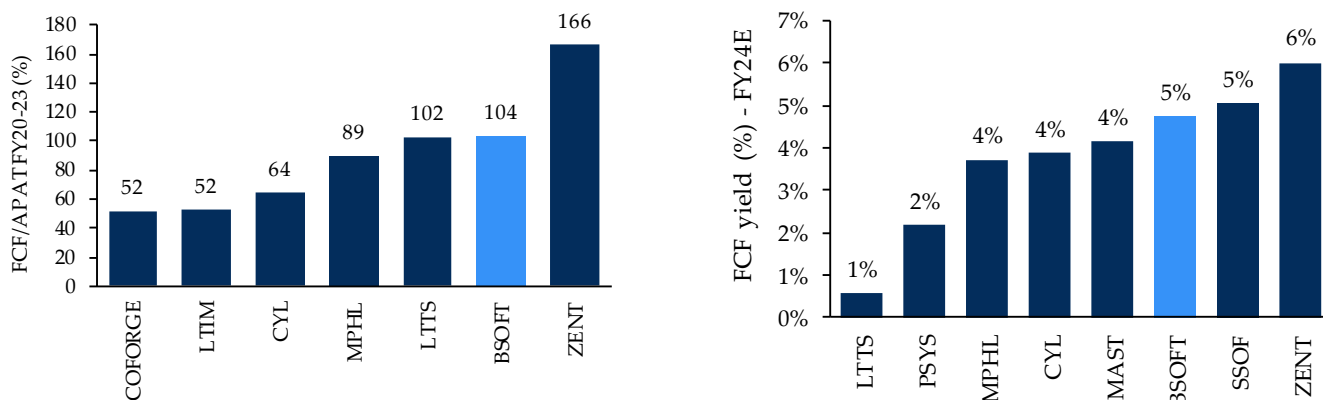
Source: Company, HSIE Research

Exhibit 34: Higher attrition compared to peers but moderated from peak



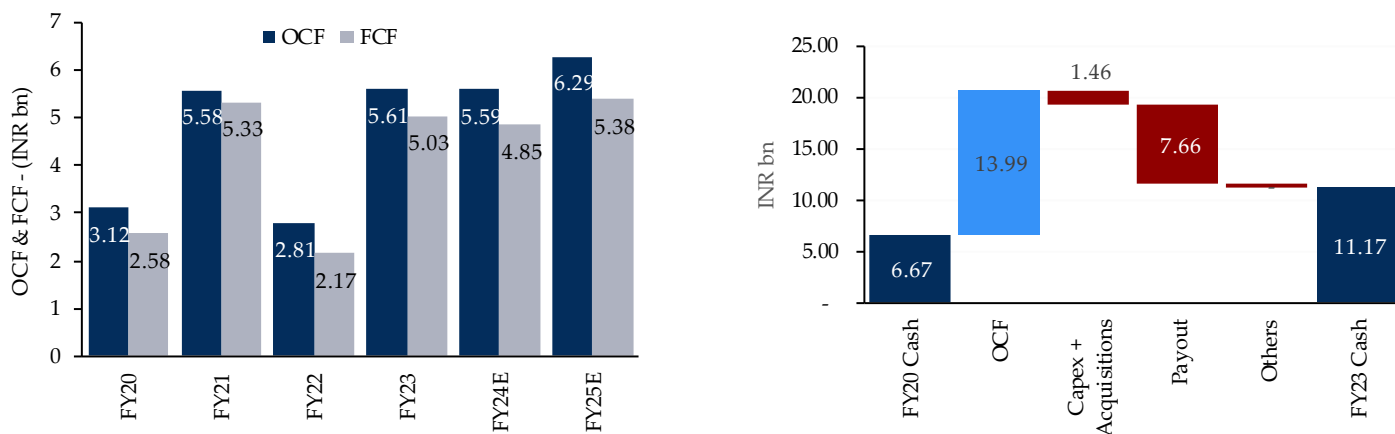
Source: Company, HSIE Research.

Exhibit 35: Strong FCF conversion & among the highest FCF yield



Source: Company, HSIE Research. Note: FY22 for LTI & MTCL, rest all FY23

Exhibit 36: Strong cash generation and high distribution



Source: Company, HSIE Research



## Quarterly Performance

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Performance by Geography</b>									
<u>Revenue-mix (%)</u>									
Americas	80.7	82.2	82.9	82.2	84.9	84.1	83.7	85.3	84.0
Europe	11.8	10.5	10.7	11.2	9.2	9.6	10.3	9.0	10.1
RoW	7.5	7.3	6.4	6.6	5.9	6.3	6.0	5.7	6.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<u>Growth (% QoQ)</u>									
Americas	6.4	8.6	5.6	1.2	4.8	(0.8)	(0.7)	2.4	1.4
Europe	(1.7)	(5.1)	6.7	6.9	(16.6)	4.5	7.0	(12.2)	15.0
RoW	(8.1)	3.8	(8.2)	5.3	(9.3)	6.9	(5.0)	(4.6)	8.4
<b>Aggregate</b>	<b>4.1</b>	<b>6.6</b>	<b>4.7</b>	<b>2.1</b>	<b>1.5</b>	<b>0.1</b>	<b>(0.3)</b>	<b>0.5</b>	<b>3.0</b>
<u>Growth (% YoY)</u>									
Americas	14.6	26.3	27.0	23.5	21.8	11.2	4.5	5.7	2.2
Europe	(16.1)	(6.5)	(1.2)	6.4	(9.8)	(0.6)	(0.4)	(18.2)	12.9
RoW	(24.3)	(9.9)	(11.7)	(7.8)	(9.0)	(6.2)	(3.0)	(12.0)	5.1
<b>Aggregate</b>	<b>5.9</b>	<b>18.4</b>	<b>20.0</b>	<b>18.7</b>	<b>15.7</b>	<b>8.7</b>	<b>3.5</b>	<b>1.8</b>	<b>3.4</b>
<b>Performance by Verticals</b>									
<u>Revenue-mix (%)</u>									
Manufacturing	44.2	43.4	45.2	46.1	46.7	47.2	46.1	47.1	40.7
BFSI	17.5	18.1	17.7	17.2	17.8	19.1	20.1	20.5	20.7
Energy & Utilities	14.9	14.3	14.8	15.1	14.3	14.1	13.9	14.9	14.3
Life sciences	23.4	24.2	22.3	21.6	21.2	19.6	19.9	17.6	24.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<u>Growth (% QoQ)</u>									
Manufacturing	(0.4)	10.3	2.4	(0.8)	5.0	7.4	5.0	2.5	4.0
BFSI	(0.4)	10.3	2.4	(0.8)	5.0	7.4	5.0	2.5	4.0
Energy & Utilities	4.8	2.3	8.4	4.2	(3.9)	(1.3)	(1.7)	7.7	(1.1)
Life sciences	(0.9)	10.3	(3.5)	(1.1)	(0.4)	(7.4)	1.3	(11.4)	2.4
<b>Aggregate</b>	<b>4.1</b>	<b>6.6</b>	<b>4.7</b>	<b>2.1</b>	<b>1.5</b>	<b>0.1</b>	<b>(0.3)</b>	<b>0.5</b>	<b>3.0</b>
<u>Growth (% YoY)</u>									
Manufacturing	6.5	14.9	13.6	11.6	17.7	14.7	17.5	21.4	20.2
BFSI	6.5	14.9	13.6	11.6	17.7	14.7	17.5	21.4	20.2
Energy & Utilities	1.8	12.2	20.0	21.1	11.1	7.2	(2.8)	0.5	3.4
Life sciences	(13.9)	19.4	9.7	4.3	4.9	(12.0)	(7.7)	(17.3)	(5.0)
<b>Aggregate</b>	<b>5.9</b>	<b>18.4</b>	<b>20.0</b>	<b>18.7</b>	<b>15.7</b>	<b>8.7</b>	<b>3.5</b>	<b>1.8</b>	<b>3.4</b>
<b>Performance by Services</b>									
Business & Technology Transformation	37.1	36.9	36.7	36.5	38.6	39.9	42.2	42.6	NA
Enterprise Solutions	43.1	41.0	41.6	40.9	40.2	37.7	35.0	35.8	NA
Cloud & Base Services	19.8	22.1	21.7	22.6	21.2	22.5	22.8	21.6	NA
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>NA</b>
<u>Growth (% QoQ)</u>									
Business & Technology Transformation	8.8	6.0	4.2	1.5	7.3	3.4	5.6	1.4	NA
Enterprise Solutions	0.4	1.4	6.3	0.4	(0.2)	(6.2)	(7.3)	2.8	NA
Cloud & Base Services	4.1	19.0	2.9	6.3	(4.8)	6.3	1.1	(4.8)	NA
<b>Aggregate</b>	<b>4.1</b>	<b>6.6</b>	<b>4.7</b>	<b>2.1</b>	<b>1.5</b>	<b>0.1</b>	<b>(0.3)</b>	<b>0.5</b>	<b>NA</b>
<u>Growth (% YoY)</u>									
Business & Technology Transformation	22.8	29.3	30.9	22.1	20.4	17.4	19.0	18.9	NA
Enterprise Solutions	(5.3)	(0.7)	8.2	8.6	7.9	(0.2)	(12.9)	(10.9)	NA
Cloud & Base Services	5.9	51.3	28.9	35.5	23.9	10.7	8.7	(2.7)	NA
<b>Aggregate</b>	<b>5.9</b>	<b>18.4</b>	<b>20.0</b>	<b>18.7</b>	<b>15.7</b>	<b>8.7</b>	<b>3.5</b>	<b>1.8</b>	<b>NA</b>

Source: Company, HSIE Research; Note: performance by verticals re-stated from Q1FY24 between Manufacturing & Life-sciences

## Quarterly Performance

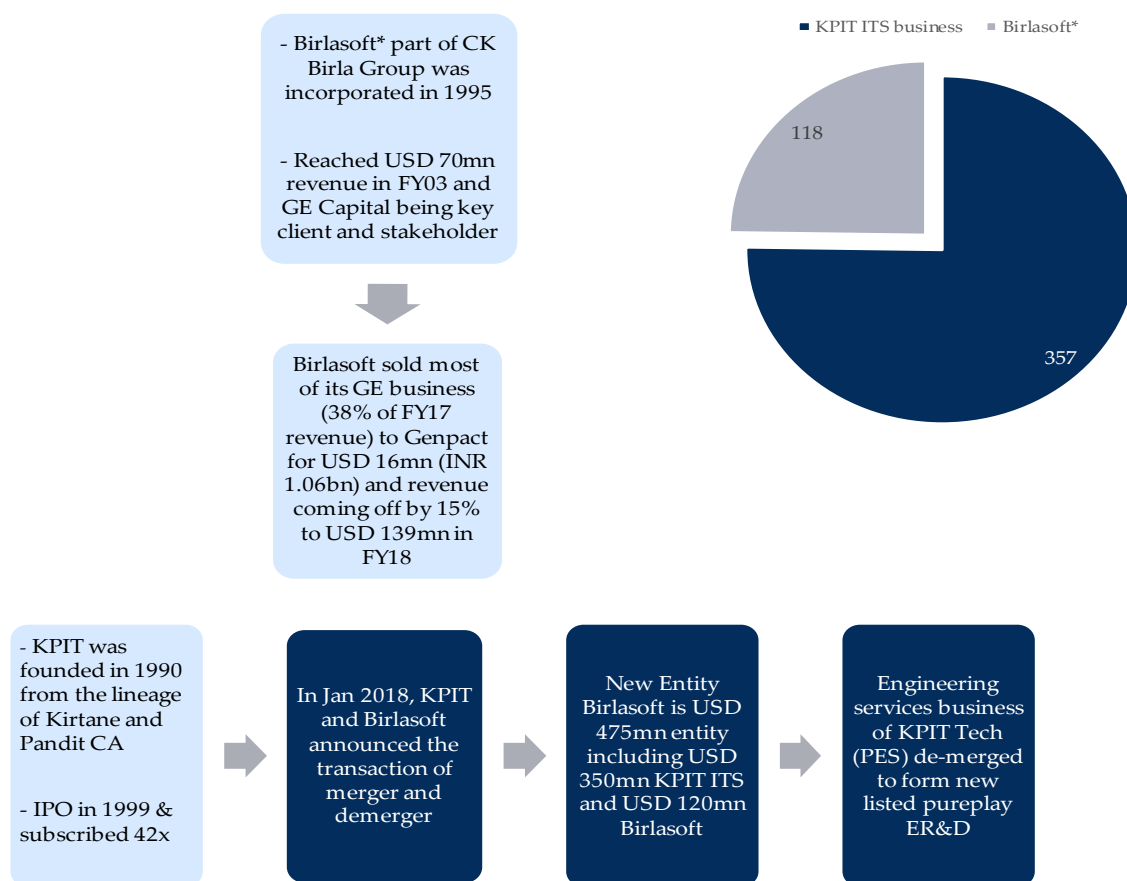
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Delivery &amp; Contract Mix (% of revenue)</b>									
- Onsite	51.4	50.8	50.5	50.1	51.1	48.0	48.9	48.6	49.0
- Offshore	48.6	49.2	49.5	49.9	48.9	52.0	51.1	51.4	51.0
<b>Client Metrics</b>									
Top 5 % of revenue	30.5	29.7	29.3	29.9	30.7	31.1	31.7	32.8	33.3
<b>Top 10 % of revenue</b>	<b>44.4</b>	<b>45.2</b>	<b>45.5</b>	<b>45.7</b>	<b>47.0</b>	<b>47.2</b>	<b>47.9</b>	<b>48.7</b>	<b>49.6</b>
Top 20 % of revenue	60.4	61.2	61.1	61.3	63.1	63.7	64.1	63.9	63.9
<b>USD 10mn+ Clients (Nos)</b>	<b>10</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>13</b>
USD 5mn+ Clients (Nos)	22	20	21	25	25	27	24	26	27
USD 1mn+ Clients (Nos)	77	76	77	80	82	76	83	83	86
Total active clients (Nos)	291	280	285	296	300	301	299	288	285
<b>Employee Metrics (Nos)</b>									
Development headcount	10,445	10,945	10,841	11,033	11,351	11,568	11,386	11,043	11,063
S&M and Other headcount	1,063	1,120	1,104	1,171	1,214	1,190	1,144	1,150	1,174
<b>Total Headcount</b>	<b>11,508</b>	<b>12,065</b>	<b>11,945</b>	<b>12,204</b>	<b>12,565</b>	<b>12,758</b>	<b>12,530</b>	<b>12,193</b>	<b>12,554</b>
Net addition	457	557	(120)	259	361	193	(228)	(337)	361
<b>Attrition (%)</b>	<b>16.5</b>	<b>24.2</b>	<b>31.4</b>	<b>34.3</b>	<b>27.9</b>	<b>27.4</b>	<b>25.5</b>	<b>22.1</b>	<b>18.8</b>
Utilisation (%)	85.0	85.8	85.4	85.2	82.5	82.4	84.0	84.8	84.9
<b>Expenses &amp; Margin (% of revenue)</b>									
Employee expense	58.8	57.0	56.6	57.2	57.0	58.2	59.9	59.5	58.8
Other expense	25.2	28.0	28.2	27.0	28.3	27.0	39.5	26.9	25.9
<b>EBITDAM</b>	<b>16.0</b>	<b>15.0</b>	<b>15.2</b>	<b>15.9</b>	<b>14.7</b>	<b>14.8</b>	<b>0.6</b>	<b>13.6</b>	<b>15.3</b>
EBITM	14.0	13.1	13.4	14.0	13.0	13.1	(1.1)	11.9	13.6
PBT	16.0	13.7	14.3	15.8	14.1	12.3	(0.6)	11.4	14.4
APAT	12.0	10.2	10.6	12.1	10.5	9.7	8.3	9.1	10.9

Source: Company, HSIE Research

## Company Profile

Birlasoft is a leading mid-tier IT company with 12k employees, focusing on four verticals—Manufacturing, E&U, BFSI and Healthcare—with services spanning from ERP to data & analytics. The IT services business of KPIT Technologies merged with Birlasoft and demerged the engineering business in Jan 2019. Since then, the company has focused on strengthening its leadership, rationalising the tail accounts, and increasing cross-sell & deal tenure of existing engagements. The erstwhile KPIT Technologies business had organized into industry vertical org. structure and account management functions in FY15. In Jan 2018, KPIT and Birlasoft announced the transaction of merger and demerger.

Exhibit 37: Company timeline



Source: Company, HSIE Research

Exhibit 38: Board Composition and Key Management Personnel

Directors	Designation	Executive	Non-Executive	Independent	Tenure since	Credentials
Amita Birla	Chairman & Director		Y		2019	Co-Chairman of CK Birla Group
Chandrakant Birla	Director		Y		2019	Chairman of CK Birla Group
Angan Guha	Managing Director & CEO	Y			2022	Former Wipro Executive Council
Ashok Kumar Barat	Director		Y	Y	2019	Managing Committee of ASSOCHAM, Former CEO of Forbes & Co.
Ananth Sankaranarayanan	Director		Y	Y	2017	Founder & CEO – Mensa Brands (Ex-CEO Myntra)
Nandita Gurjar	Director		Y	Y	2018	Former Infosys HR Global Head

Source: Company

**Exhibit 39: BSOFT senior leadership**

Management	Designation	Tenure at BSOFT	Prior organization
Angan Guha	CEO & MD	< 1 year	Wipro
Roop Singh	CEO, Americas	>3 years	IBM, Wipro
Kamini Shah	CFO	< 1 year	Wipro
Arun Rao	Chief People Officer	>2 years	DXC Tech

Source: Company

**Exhibit 40: Shareholding Trend (%) & Key Shareholders**

(%)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	40.32	41.48	41.31	41.08	41.03
DII's	21.12	19.87	20.10	21.20	24.49
FPIs	15.24	12.95	12.40	11.47	11.31
Public/Others	23.32	25.70	26.19	26.25	23.17

Source: BSE

SR.NO.	Key Shareholders	No. of Shares (mn)	% of Total
1	National Engineering Industries (Promoter)	107.7	39.1
2	Axis Asset Management	15.2	5.5
3	L&T Mutual Fund	10.6	3.8
4	Aditya Birla Sun Life Asset Management	8.9	3.2
5	ICICI Prudential Life Insurance	8.6	3.1
6	ICICI Prudential Asset Management	6.5	2.4
7	Vanguard Group	5.2	1.9
8	Central India Industries (Promoter)	5.2	1.9
9	Max Life Insurance	4.6	1.7
10	Dimensional Fund	4.1	1.5
11	HSBC Asset Management	3.3	1.2
12	Tata Asset Management	3.1	1.1
13	Mahindra Manulife Investment	3.1	1.1
14	BlackRock	2.9	1.1
15	FundRock Management	2.8	1.0
16	Dhawan Ashish	2.8	1.0
17	Edelweiss Asset Management	2.0	0.7
18	Franklin Resources	2.0	0.7
19	Kotak Mahindra Asset Management	1.3	0.5
20	Norges Bank	1.2	0.4
21	Invesco Asset Management	1.1	0.4

Source: Bloomberg

**Exhibit 41: Key assumptions (base case)**

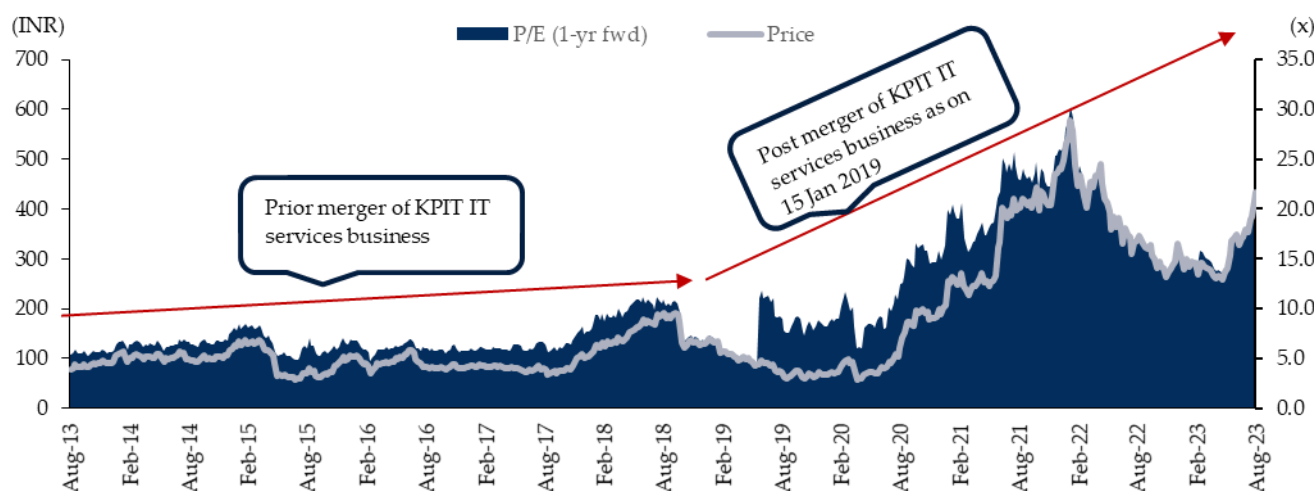
	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue growth (USD terms)</b>	<b>15.7%</b>	<b>7.2%</b>	<b>6.9%</b>	<b>12.9%</b>	<b>12.2%</b>
USD-INR	74.4	80.6	82.7	84.0	85.0
Headcount (Nos)	12,204	12,193	13,454	14,754	16,104
Attrition (%)	34.3%	22.1%	18.8%	17.8%	16.8%
Net new book-to-bill (x)	0.80x	0.78x	0.77x	0.88x	0.87x
<b>EBITDAM (%)</b>	<b>15.5%</b>	<b>10.9%</b>	<b>15.5%</b>	<b>16.0%</b>	<b>16.1%</b>
EPS (INR)	16.8	16.3	20.3	24.3	28.2

Source: HSIE Research

## Valuation and recommendation

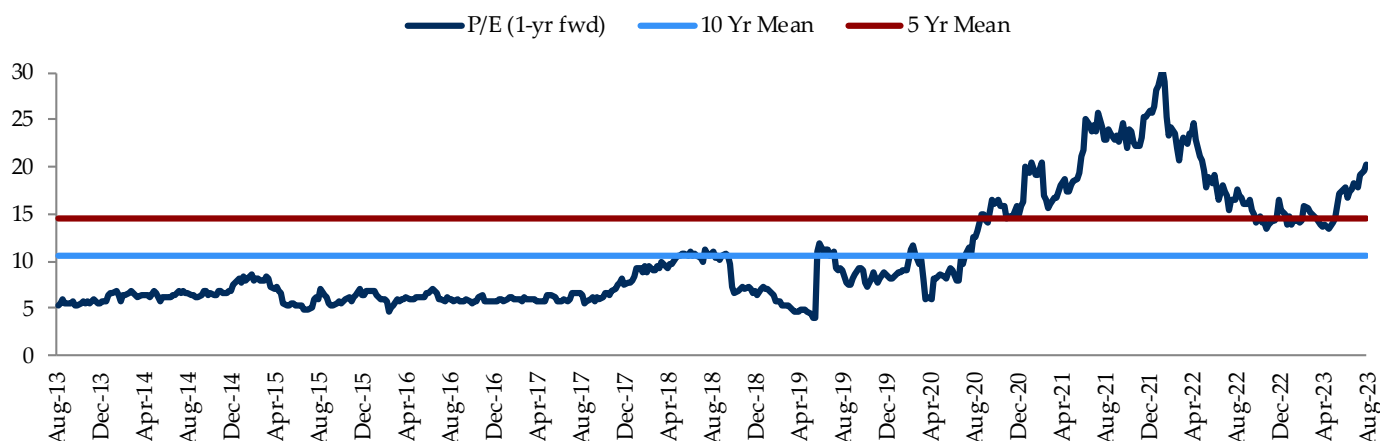
Our base case fair value for BSOFT is INR 530, based on 21x Jun-25E EPS (DCF-implied), which translates to a ~22% upside on the stock. We believe the risk-reward is favourable as the bull case/bear case fair value is +50/-20% from the CMP. Our target valuations on BSOFT are based on (1) revenue CAGR of 10% over FY23-26E (6.9% in FY24E, 12.9% and 12.2% in FY25/26E) and improvement in the quality of revenue ahead; (2) EBITDAM of 15.5/16.0/16.1% for FY24/25/26E supporting the 20% EPS CAGR over FY23-26E; (3) strong cash generation and attractive FCF yield. At CMP, the implied growth (based on reverse DCF) is 7.4% CAGR in USD terms over FY23-33E. BSOFT trades at 21x and 18x FY24E and FY25E as compared to the mid-tier median valuation of 26x and 22x.

Exhibit 42: BSOFT' P/E and stock price trend



Source: Bloomberg, HSIE Research

Exhibit 43: BSOFT' 10Y P/E (1-yr Fwd) trend



Source: Bloomberg, HSIE Research

Exhibit 44: Favourable risk-reward scenario

BASE CASE		BULL CASE		BEAR CASE	
Revenue CAGR FY23-26E	11%	Revenue CAGR FY23-26E	13%	Revenue CAGR FY23-26E	6%
APAT CAGR FY23-26E	20%	APAT CAGR FY23-26E	23%	APAT CAGR FY23-26E	10%
FY25E EPS (INR)	24.6	FY25E EPS (INR)	25.7	FY25E EPS (INR)	19.8
Fair value (INR)	530	Fair value (INR)	650	Fair value (INR)	345
Upside/(Downside) (%)	22%	Upside/(Downside) (%)	50%	Upside/(Downside) (%)	-20%

Source: HSIE Research

## Financials

### Income Statement

Year ending March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues (USD mn)	464	480	555	595	636	718	806
<i>Growth (%)</i>	-2.2%	3.4%	15.7%	7.2%	6.9%	12.9%	12.2%
<b>Net Revenues</b>	<b>32.91</b>	<b>35.56</b>	<b>41.30</b>	<b>47.95</b>	<b>52.58</b>	<b>60.30</b>	<b>68.49</b>
<i>Growth (%)</i>	-0.4%	8.0%	16.2%	16.1%	9.7%	14.7%	13.6%
Employee Expenses	19.98	21.16	23.69	28.13	31.07	35.50	40.23
Other Expenses	9.02	9.11	11.21	14.61	13.39	15.15	17.21
<b>EBITDA</b>	<b>3.92</b>	<b>5.29</b>	<b>6.40</b>	<b>5.20</b>	<b>8.13</b>	<b>9.65</b>	<b>11.06</b>
<i>EBITDA Margin (%)</i>	<i>11.9%</i>	<i>14.9%</i>	<i>15.5%</i>	<i>10.9%</i>	<i>15.5%</i>	<i>16.0%</i>	<i>16.1%</i>
<i>EBITDA Growth (%)</i>	22.4%	35.0%	21.0%	-18.7%	56.2%	18.8%	14.6%
Depreciation	0.83	0.80	0.77	0.82	0.87	0.96	1.10
<b>EBIT</b>	<b>3.09</b>	<b>4.49</b>	<b>5.64</b>	<b>4.38</b>	<b>7.26</b>	<b>8.69</b>	<b>9.96</b>
<i>EBIT Margin (%)</i>	<i>9.4%</i>	<i>12.6%</i>	<i>13.6%</i>	<i>9.1%</i>	<i>13.8%</i>	<i>14.4%</i>	<i>14.5%</i>
Other Income (Including EO Items)	0.43	0.19	0.66	0.23	0.34	0.47	0.62
Interest	0.16	0.13	0.13	0.19	0.17	0.17	0.17
<b>PBT</b>	<b>3.36</b>	<b>4.55</b>	<b>6.17</b>	<b>4.42</b>	<b>7.43</b>	<b>8.99</b>	<b>10.41</b>
Tax (Incl Deferred)	1.12	1.34	1.53	1.11	1.85	2.29	2.65
RPAT	2.24	3.21	4.64	3.32	5.59	6.70	7.76
<b>APAT</b>	<b>2.24</b>	<b>3.21</b>	<b>4.64</b>	<b>4.50</b>	<b>5.59</b>	<b>6.70</b>	<b>7.76</b>
<i>APAT Growth (%)</i>	-5.3%	43.1%	44.5%	-3.0%	24.3%	19.8%	15.8%
<b>Adjusted EPS (INR)</b>	<b>8.1</b>	<b>11.7</b>	<b>16.8</b>	<b>16.3</b>	<b>20.3</b>	<b>24.3</b>	<b>28.2</b>
<i>EPS Growth (%)</i>	-5.3%	43.1%	44.5%	-3.0%	24.3%	19.8%	15.8%

Source: Company, HSIE Research

### Balance Sheet

Year ending March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCES OF FUNDS</b>							
Share Capital - Equity	0.55	0.55	0.56	0.55	0.55	0.55	0.55
Reserves	18.37	21.24	25.27	23.93	28.03	32.95	38.53
<b>Total Shareholders Funds</b>	<b>18.92</b>	<b>21.80</b>	<b>25.83</b>	<b>24.48</b>	<b>28.58</b>	<b>33.50</b>	<b>39.08</b>
Net Deferred Taxes	(1.20)	(0.88)	(0.92)	(1.17)	(1.17)	(1.17)	(1.17)
Other non-current liabilities	1.83	1.80	1.40	1.15	1.15	1.15	1.15
<b>TOTAL SOURCES OF FUNDS</b>	<b>19.56</b>	<b>22.72</b>	<b>26.31</b>	<b>24.46</b>	<b>28.55</b>	<b>33.48</b>	<b>39.06</b>
<b>APPLICATION OF FUNDS</b>							
Net Block	2.97	2.51	2.69	2.46	2.33	2.27	2.29
CWIP	0.02	0.07	0.02	0.06	0.06	0.06	0.06
Goodwill	4.54	4.48	4.57	4.90	4.90	4.90	4.90
Other non-current assets	1.22	0.75	0.73	0.84	0.84	0.84	0.84
<b>Total Non-current Assets</b>	<b>8.75</b>	<b>7.80</b>	<b>8.01</b>	<b>8.26</b>	<b>8.13</b>	<b>8.07</b>	<b>8.09</b>
Debtors (incl. unbilled)	8.14	6.32	8.49	9.07	10.24	12.07	13.71
Other Current Assets	2.11	3.75	4.16	2.20	2.29	2.45	2.61
Cash & Equivalent	6.67	11.19	12.26	11.17	14.61	18.40	22.99
<b>Total Current Assets</b>	<b>16.92</b>	<b>21.26</b>	<b>24.91</b>	<b>22.44</b>	<b>27.14</b>	<b>32.92</b>	<b>39.31</b>
Creditors	1.90	1.32	2.10	2.31	2.54	2.91	3.30
Other Current Liabilities & Prov.	4.21	5.03	4.50	3.93	4.18	4.60	5.04
<b>Total Current Liabilities</b>	<b>6.11</b>	<b>6.34</b>	<b>6.60</b>	<b>6.24</b>	<b>6.71</b>	<b>7.50</b>	<b>8.34</b>
<b>Net Current Assets</b>	<b>10.81</b>	<b>14.92</b>	<b>18.31</b>	<b>16.20</b>	<b>20.42</b>	<b>25.41</b>	<b>30.97</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>19.56</b>	<b>22.72</b>	<b>26.31</b>	<b>24.46</b>	<b>28.55</b>	<b>33.48</b>	<b>39.06</b>

Source: Company, HSIE Research

## Cash Flow

Year ending March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Reported PBT</b>	<b>3.36</b>	<b>4.55</b>	<b>6.17</b>	<b>4.42</b>	<b>7.43</b>	<b>8.99</b>	<b>10.41</b>
Non-operating & EO items	0.46	(0.08)	0.09	2.29	(0.26)	(0.35)	(0.46)
Interest expenses	0.16	0.13	0.13	0.19	0.17	0.17	0.17
Depreciation	0.83	0.80	0.77	0.82	0.87	0.96	1.10
Working Capital Change	(0.88)	0.84	(2.56)	(0.80)	(0.78)	(1.20)	(0.96)
Tax Paid	(0.80)	(0.67)	(1.78)	(1.31)	(1.85)	(2.29)	(2.65)
<b>OPERATING CASH FLOW</b>	<b>3.12</b>	<b>5.58</b>	<b>2.81</b>	<b>5.61</b>	<b>5.59</b>	<b>6.29</b>	<b>7.60</b>
Capex	(0.54)	(0.25)	(0.64)	(0.58)	(0.73)	(0.90)	(1.12)
<b>Free cash flow (FCF)</b>	<b>2.58</b>	<b>5.33</b>	<b>2.17</b>	<b>5.03</b>	<b>4.85</b>	<b>5.38</b>	<b>6.48</b>
Non-operating Income	0.08	(4.20)	(2.43)	3.09	0.26	0.35	0.46
<b>INVESTING CASH FLOW</b>	<b>(0.46)</b>	<b>(4.44)</b>	<b>(3.07)</b>	<b>2.52</b>	<b>(0.48)</b>	<b>(0.55)</b>	<b>(0.66)</b>
Interest Expenses	(0.03)	(0.02)	(0.03)	(0.09)	(0.17)	(0.17)	(0.17)
FCFE	1.77	4.91	1.73	4.53	4.68	5.21	6.31
Share Capital Issuance	0.01	0.00	0.08	0.13	-	-	-
Dividend + Buyback	(1.00)	(0.55)	(1.11)	(5.99)	(1.50)	(1.77)	(2.18)
<b>FINANCING CASH FLOW</b>	<b>(1.80)</b>	<b>(0.97)</b>	<b>(1.47)</b>	<b>(6.36)</b>	<b>(1.67)</b>	<b>(1.94)</b>	<b>(2.35)</b>
<b>NET CASH FLOW</b>	<b>0.86</b>	<b>0.17</b>	<b>(1.73)</b>	<b>1.76</b>	<b>3.44</b>	<b>3.79</b>	<b>4.59</b>
<b>Closing Cash &amp; Equivalents</b>	<b>6.67</b>	<b>11.19</b>	<b>12.26</b>	<b>11.17</b>	<b>14.61</b>	<b>18.40</b>	<b>22.99</b>

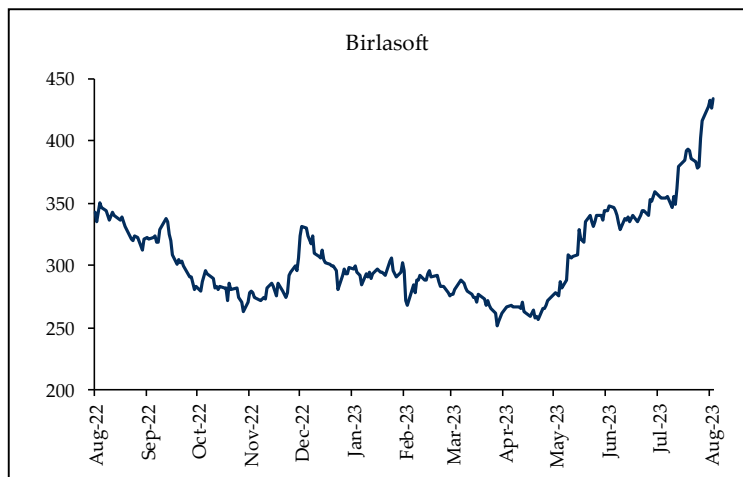
Source: Company, HSIE Research

## Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>PROFITABILITY (%)</b>							
GPM	39.3	40.5	42.6	41.3	40.9	41.1	41.3
EBITDA Margin	11.9	14.9	15.5	10.9	15.5	16.0	16.1
APAT Margin	6.8	9.0	11.2	9.4	10.6	11.1	11.3
RoE	12.4	15.8	19.5	17.9	21.1	21.6	21.4
RoIC (or Core RoCE)	17.3	25.9	33.1	24.0	40.1	44.6	47.7
RoCE	12.9	15.6	19.3	18.3	21.6	22.0	21.7
<b>EFFICIENCY</b>							
Tax Rate (%)	33.3	29.5	24.8	25.1	24.8	25.5	25.5
Fixed Asset Turnover (x)	5.1	5.3	5.6	6.8	6.8	7.1	7.3
Debtors (days) incl. unbilled ex-contract assets	90	65	75	69	71	73	73
Other Current Assets (days)	23	39	37	17	16	15	14
Payables (days)	21	14	19	18	18	18	18
Other Current Liab & Provs (days)	47	52	40	30	29	28	27
Cash Conversion Cycle (days)	46	38	53	38	40	42	43
Net D/E (x)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	19	34	43	24	43	51	59
<b>PER SHARE DATA (INR)</b>							
EPS	8.1	11.7	16.8	16.3	20.3	24.3	28.2
CEPS	11.1	14.5	19.4	19.5	23.5	27.8	32.2
Dividend	2.0	3.5	4.5	3.5	5.5	6.5	8.0
Book Value	68	79	93	90	104	122	142
<b>VALUATION</b>							
P/E (x)	53.2	37.2	25.7	26.5	21.4	17.8	15.4
P/BV (x)	6.3	5.5	4.7	4.8	4.2	3.6	3.1
EV/EBITDA (x)	28.8	20.4	16.7	20.8	12.9	10.5	8.7
EV/Revenues (x)	3.4	3.0	2.6	2.3	2.0	1.7	1.4
OCF/EV (%)	2.8	5.2	2.6	5.2	5.3	6.2	7.9
FCF/EV (%)	2.3	4.9	2.0	4.7	4.6	5.3	6.7
FCFE/Mkt Cap (%)	1.5	4.1	1.5	3.8	3.9	4.4	5.3
Dividend Yield (%)	0.5	0.8	1.0	0.8	1.3	1.5	1.8

Source: Company, HSIE Research

## 1 Yr Price history



## Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential



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