

## Birlasoft Limited

August 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	307.00	CARE AA+; Stable	Revised from CARE AA; Stable
Long-term / Short-term bank facilities	20.00	CARE AA+; Stable / CARE A1+	Revised from CARE AA; Stable / CARE A1+
Short-term bank facilities	25.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the long-term rating assigned to bank facilities of Birlasoft Limited (Birlasoft) from 'CARE AA; Stable' to 'CARE AA+; Stable' while reaffirming the short-term rating at 'CARE A1+'. The revision considers the established business position of Birlasoft in the IT services industry with healthy financial risk profile characterised by robust capital structure, steady free cash flow generation over s and strong liquidity position. It had sizeable cash and liquid investments of more than ₹1,700 crore in addition to the unutilised working capital limits as on March 31, 2024. The rating further factors in the increasing scale of operations over a period, enhanced profitability levels in FY24 (refers to April 01 to March 31). The company has a sizeable order book position including recently bagged deal of US\$ 100 million, having a healthy mix of new and renewal deals, which provides the revenue visibility going forward. CARE Ratings note that the demand environment is still soft in key geographies given the global headwinds reflecting in the shift of customer priorities related to discretionary & transformational spends and longer decision cycles. Nevertheless, Birlasoft is focussed on scaling up its operations from its key top clients and also leverage the growth prospects in digital and cloud services over the medium term.

Ratings continue to derive strength from being a part of the well-known and diversified C.K. Birla group and strategic importance of Birlasoft in the group considering the significant valuation of more than ₹19,000 crore. Ratings also draw comfort from the healthy order pipeline & revenue visibility across the diversified service offerings of the company to four industry verticals, namely, manufacturing which contributed nearly 41% of the revenues, Life Sciences at 24%, BFSI at 21%, and Energy & Utilities at 14%.

However, these rating strengths are partially offset by Birlasoft's presence in a highly competitive IT service industry with many prominent players limiting its pricing flexibility given the relative moderate scale of operations, its geographical concentration largely in USA, client concentration, foreign exchange fluctuation risk, employee attrition risk, and changes in policies across the key operating markets, including America and Europe among others.

CARE Ratings believes that the company's financial and operational metrics are expected to sustain in absence of significant acquisitions or growth plans in immediate future, which may require significant capital or debt infusion and further supported by healthy opportunity pipeline, initiatives taken around AI and Gen AI capabilities, steady revenue and margin growth, and healthy liquidity built-up.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significantly improving scale of operations and diversifying geographies and its ability to enhance its operating profitability margins with 20% or more on a sustained basis.

#### Negative factors

- Incremental sizable debt-funded acquisition that can moderate the capital structure leading to net debt/profit before interest, lease rentals, depreciation, and taxation (PBILDT) of more than 1x on a sustained basis.
- Slow-down in key verticals leading to significant pressure on the income and declining PBILDT margin of less than 12% on a sustained basis.
- Major regulatory challenges impacting the company's operations.

#### Analytical approach: Consolidated

CARE Ratings has taken a consolidated approach of Birlasoft and its subsidiaries, as all these entities are in the same line of business, under a common management, and have strong financial and operational linkages. The foreign subsidiaries contribute significantly to the company's total operating income (TOI). List is given below in Annexure-6.

#### Outlook: Stable

'Stable' outlook assigned to the long-term rating of Birlasoft reflects CARE Rating's expectation that the company's financial risk profile will continue to remain strong over near-to-medium term supported by steady internal accrual generation, comfortable capital structure with debt-free status (excluding leased liabilities), and strong liquidity position despite some moderation in growth momentum, which is expected in the IT industry.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key strengths

### Improving scale of operations and profitability albeit moderately placed among industry peers

The company is a mid-sized IT player in the Indian IT services industry with revenue base of ₹5,278 crore in FY24 increased from ₹4,787.28 crore in FY23 registering annual growth of 10.25%, derived from deep relationship with the existing large accounts while rationalising tail accounts. This strategy helped freeing the resources from less profitable accounts and enable the focus on improved service offerings to existing and profitable clients.

The company's operating profitability also improved from 13.89% to 15.81% which is partly aided by increase in fixed price contract over the last three years. FY23 was largely impacted by a one-time provision of ₹151 crore (~ US \$ 19 million) against outstanding receivables and contract assets pertaining to one of the key clients, 'Invacare' which was declared bankrupt in 2022-23. The company has also adopted better monitoring strategies of accounts, implemented cost-optimisation measures, and better pricing from clients which would help in margin expansion going forward.

### Strong financial risk profile marked by strong debt coverage metrics

The company continues to maintain a strong financial risk profile with strong capital structure marked by zero bank debt (except lease liabilities), negligible WC utilisation and superior liquidity position; reflecting through robust debt protection metrics. The overall gearing stood at 0.04x as on March 31, 2024 compared to 0.05x as on March 31, 2023. As on March 31, 2024, tangible net worth (TNW) increased and stood at ₹2,538.95 crore owing to exercise of ESOP and profit accretion during the year. Other coverage indicators also remained healthy including interest cover of 41.85x in FY24 (PY: 27.65x), TD/PBILDT and TD/gross cash accruals (GCA) of 0.11x and 0.13x, respectively, as on March 31, 2024 (PY: 0.15x and 0.26x).

Going forward, the financial metrics expected to remain strong in absence of significant acquisitions or growth plans in immediate future which may require significant capital or debt and further supported by steady revenue and margin growth and healthy liquidity built up.

### Well-diversified service offerings aligned by industry verticals

Birlasoft has service capabilities across four verticals, Manufacturing, BFSI, Lifesciences, and Energy & Utilities, across four service lines, Data & Analytics, ERP, Digital & Cloud, and Infrastructure. In the fiscal 2024, manufacturing contributed nearly 41% of the revenues followed by Life Sciences at 24%, BFSI at 21%, and E&U at 14%. Revenue growth during the year was driven largely by BFSI and manufacturing verticals, while healthcare vertical was soft owing to seasonality and is expected to remain slow for next one to two quarters, post which it shall gradually bounce back.

### Healthy order book supporting revenue visibility

In FY24, Birlasoft registered an increase in revenue by 10.25% to ₹5,278 crore and 9.93% in constant currency (USD) to US \$ 163.9 million, despite the decline in active number of accounts from 288 in FY23 to 259 in FY24. The company has rationalised the total client accounts to exit the tail accounts and to allocate its resources to more profitable accounts, which are long sustaining and have potential growth prospects. In this respect, the company has been able to enhance its overall operating profitability as well. The company also signed new deals worth US \$ 448 million in FY24, while renewals was US \$ 428 million leading to total TCV of US \$ 876 million compared to US \$ 868 million last year, increase of 0.92% as the deal flow trajectory also reflects the shift of customer priorities and longer decision cycles, challenging macro environments globally and realigned discretionary spends. In Q4FY24, the company signed two significant deals with an existing BFSI client and another one in healthcare. This coupled with significant recent wins such as the US \$100 million deal in Q2FY24, which is expected to ramp-up in FY25, highlights the company's capability to capture substantial market opportunities for sustained growth. Going forward, the company's deal wins are expected to remain steady as the company has strategized to derive growth through client-mining and cross-selling efforts. Strong deal signings and a healthy opportunity pipeline indicate a positive performance outlook in the next fiscal year.

### Strong parentage being part of the well-established and diversified CK Birla group

The CK Birla Group is a diversified US \$2.8 billion conglomerate operating in six major industry clusters, including technology, automobiles, home & building, infrastructure, and healthcare and education among others. Birlasoft derives financial flexibility and benefits from the strong management lineage of the Group. It is promoted by National Engineering Industries Ltd (with 39.04% stake in Birlasoft as on March 31, 2024; rated 'CARE AA-; Stable/ CARE A1+'), which is a pioneer in the field of bearing manufacturing in India. It is engaged in manufacturing types of ball & roller bearings with its three plants being at Jaipur & Newai (Rajasthan) and Manesar (Gurgaon, Haryana). The company is led by Amita Birla who is the company's Chairman and is assisted by a team of qualified professionals. The company onboarded a new CEO and Managing Director, Mr. Angan Guha in December 2022 with over three decades of experience in the IT services industry. Being a strategic business vertical and carrying significant market valuation of more than ₹19,000 crore, Birlasoft holds pivotal position in the group.

## Key weaknesses

### Highly competitive industry with exposure to forex risk, employee attrition, and policies in key operating markets

The presence of Birlasoft in a highly competitive industry leads to factors such as pricing pressure, deal renegotiations, deferrals, and retention of talent, among others, which are expected to have a direct bearing on the company's revenue growth and profitability. As most of the company's earnings are in foreign currency, exchange rate movement can impact the company's profitability. However, the company evaluates net exchange rate exposure based on expected volatility and generally covers 60-70% of the total exposure at any time through a layered hedging strategy. Employee costs increased by 7.89% in FY24 compared to 18.82% in FY23, which was in line with other IT companies as there was a huge attrition in the industry, which has now stabilised. In FY24, the attrition rate reduced significantly from 22.1% last year to 12.4% now with utilisation level of 86% (PY: 83.4%), which also led to better profitability.

### Exposure towards geographical and client concentration risks

Birlasoft's geographical revenue trend remains in-line with the global IT services industry as majority of the revenue comes from America alone. In FY24, America contributed close to 85.5% (PY: 84.5%) of the revenues, followed by Europe- 8.8% (PY: 9.5%) and Rest of the world- 5.7% (PY: 6.0%). Skewness to a single geography exposes the company's revenues and profitability to the structural and region-specific challenges. However, the company is focussing more on expanding global coverage and getting deals other than America.

Client contribution to revenue in FY24 was nearly at 34.2% (PY: 32.8%) from the top five customers, 51.2% (PY: 48.7%) from the top 10 customers and 64.3% (PY: 63.9%) from the top 20 customers, implying exposure towards moderate to high customer concentration risk. This is also steered by the company's strategy to focus on select customer groups and drive future growth through existing set of top multi-service accounts via cross-selling. Over the years, the company has also been rationalising non-profitable accounts with less potential of growth. However, the risk of higher client concentration is mitigated to an extent by the company's long-standing and strategic association with these clients.

### Liquidity: Strong

The company's liquidity profile is strong marked with healthy GCA of ₹720 crore generated in FY24 and expected ₹756 crore in FY25 against nil term debt (except lease liabilities) leaving sufficient buffer for capex requirement in regular course of business and dividend distribution. The liquidity position is further aided by the investments into mutual funds/bonds- ₹836.16 crore, FDRs- ₹483.41 crore and cash & bank balance- ₹420.45 crore aggregating to ₹1,740.02 crore as on March 31, 2024 (PY: ₹1,119.27 crore) per the board defined investment policy. Birlasoft also has adequate buffer available in the form of unutilised WC limits as average utilisation ranges about 1.80% only against sanctioned ₹352.20 crore for the trailing 12 months ending with May 2024. The cushion in limits is sufficient to absorb incremental WC requirement or future exigencies. Apart from this, the company incurs regular capex to the tune of ₹20-30 crore for its office equipment, software, and furniture among others, which is met out of internal accruals only.

## Environment, social, and governance (ESG) risks

**Environment:** Birlasoft is not exposed to severe environmental risk being a service-oriented company. However, it is working towards reducing its carbon footprint as moving to cloud, which means cutting down on physical products and hardware. Therefore, there is a reduction in paper waste and computer emitted emissions. The company has also implemented CAMUS-SBT (Continuous Advanced Multistage System – Soil Biotechnology) sewage treated plant to treat sewage water using terrestrial ecology for optimum utilisation of water. Energy Efficiency Initiatives are also being taken through replacement of HVAC system with more efficient VRF system and replacement of CFL with LED lighting.

**Social:** Indian IT service companies face the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, the company remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. Being a human capital-intensive service-based company, Birlasoft promotes gender diversity with 30% women representation at board level. However, low diversity in workforce as in FY24, only 23.6% of the total employees were women. The company also conducts training regularly, contributing to skill development and helps to achieve low attrition rate at 12.4% for the year ended March 31, 2024, while industry average was higher.

**Governance:** Birlasoft has a robust governance framework in place and has four independent directors out of total eight Board of Directors.

## Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Service Sector Companies](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

## About company and industry

## Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT-enabled services

Birlasoft is a part of C.K. Birla Group and was incorporated in 1995. The company is primarily managed by Amita Birla (Chairperson-Birlasoft & Co-Chairperson- C K Birla Group), Mr. Chadrakant Birla (Promoter, Non-Executive Director), and Mr. Angan Guha (CEO & Managing Director). The company is a multinational global IT solutions and services provider in the areas of software development, package implementation, application management, testing domain, enterprise, and digital technologies.

Brief Financials (₹ crore)-Consolidated	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	4,787.28	5,278.15
PBILDT	665.07	834.52
PAT	331.58	623.76
Overall gearing (times)	0.05	0.04
Interest coverage (times)	27.65	41.85

A: Audited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

## Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	277.00	CARE AA+; Stable
Fund-based - LT-Working capital limits	-	-	-	-	30.00	CARE AA+; Stable
Fund-based - ST-Bank overdraft	-	-	-	-	25.00	CARE A1+
Non-fund-based - LT/ST-Bank guarantee	-	-	-	-	20.00	CARE AA+; Stable / CARE A1+

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash credit	LT	277.00	CARE AA+; Stable	-	1)CARE AA; Stable (29-Nov-23)	1)CARE AA; Stable (20-Sep-22)	1)CARE AA; Stable (05-Oct-21)
2	Fund-based - LT-Working capital limits	LT	30.00	CARE AA+; Stable	-	1)CARE AA; Stable (29-Nov-23)	1)CARE AA; Stable (20-Sep-22)	1)CARE AA; Stable (05-Oct-21)
3	Fund-based - ST-Bank overdraft	ST	25.00	CARE A1+	-	1)CARE A1+ (29-Nov-23)	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (05-Oct-21)
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	20.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Nov-23)	1)CARE AA; Stable / CARE A1+ (20-Sep-22)	1)CARE AA; Stable / CARE A1+ (05-Oct-21)

\*LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities-** Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Working capital limits	Simple
3	Fund-based - ST-Bank overdraft	Simple
4	Non-fund-based - LT/ ST-Bank guarantee	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Birlasoft Solutions Inc., USA	Full	Subsidiary of Birlasoft Limited
2	Birlasoft Solutions France	Full	Subsidiary of Birlasoft Limited
3	Birlasoft Computer Corporation, USA	Full	Subsidiary of Birlasoft Limited
4	Birlasoft Solutions ME FZE, UAE	Full	Subsidiary of Birlasoft Limited
5	Birlasoft Solutions Ltd, UK	Full	Subsidiary of Birlasoft Limited
6	Birlasoft Consulting Inc., USA	Full	Subsidiary of Birlasoft Limited
7	Birlasoft Solutions Mexico, S.A. DE. C.V, Mexico	Full	Subsidiary of Birlasoft Limited
8	Birlasoft Technologies Canada Corporation, Canada	Full	Subsidiary of Birlasoft Limited
9	Birlasoft Solutions GmbH, Germany	Full	Subsidiary of Birlasoft Limited
10	Birlasoft Solutions Ltda., Brazil	Full	Subsidiary of Birlasoft Limited
11	Birlasoft Inc., USA	Full	Subsidiary of Birlasoft Limited
12	Birlasoft (UK) Limited, UK	Full	Subsidiary of Birlasoft Limited
13	Birlasoft Sdn Bhd, Malaysia	Full	Subsidiary of Birlasoft Limited

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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**About us:**

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