Birlasoft (India) Limited (Revised)

March 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	60.75 (enhanced from Rs. 60.00 crore)	**CARE A+ (Single A Plus) (Under Credit Watch with Developing Implications)**	**Placed on credit watch with developing implications**
Total	**60.75 (Rupees Sixty crore and Seventy Five lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Birlasoft (India) Limited (BSIL) on 'Credit Watch with Developing Implications' on account of the ongoing merger-demerger deal between BSIL and KPIT Technologies Limited (KPIT) as well as the possible impact of the same on the credit risk profile of the company. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities of Birlasoft (India) Limited (BSIL) continue to derive strength from its strong parentage being part of C.K Birla group with long track record in IT consulting business, reputed client base and alliances made by the company to drive business growth. The ratings also factor in the comfortable financial risk profile as reflected by healthy liquidity position.

These rating strengths are, however, partially offset by the company's dependence on economic conditions of the foreign markets, client and geographical concentration, exposure to foreign currency fluctuation and stiff competition from established IT companies.

Going forward, the ability of the company to maintain its scale of operations in a highly competitive industry scenario without adversely impacting its profitability margins and capital structure will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Resourceful and experienced promoters and management

BSIL is a part of C.K Birla group which has diversified business interest in various industry segments including cement, auto components, precision bearing, paper, building materials, Information Technology Enabled Services (ITeS), consumer durables, and heavy engineering equipment. BSIL has been promoted by National Engineering Industries Ltd (NEIL; rated 'CARE AA; Stable/CARE A1+') holding 93.26% stake in BSIL. The company is led by Mrs Amita Birla who is the current chairman of the company and is assisted by a team of qualified professionals headed by Mr Anjan Lahiri, MD & CEO.

Comfortable financial risk profile

The financial risk profile of the company is marked by comfortable liquidity position with zero debt and free cash & bank equivalents of Rs. 83.66 crore and investments in form of mutual funds of Rs. 242.98 crore as on Sep 30, 2017.

The total operating income of BSIL remains stable at Rs.1109.21 crore in FY17 vis-à-vis Rs.1082.23 crore in FY16 (y-o-y growth of 2.49 %) on the back of strong clientle with majority of the revenue coming from repeated business (97% in FY17). The profitability margins remained stable in FY17 with PBILDT margins of 14.51% (PY: 14.62%) and PAT margin of 9.33% (PY: 8.03%).

During H1FY18, the company reported total operating income of Rs. 493.97 crore with PBILDT and PAT margin of 10.62% and 21.46% respectively. The PAT margin was high during H1FY18 on account of extraordinary income of Rs. 106.83 crore from transfer of GE business of the company to Genpact.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Reputed client base
The company has overseas branches in Singapore, Australia, Sweden, Switzerland, Canada and The Czech Republic. BSIL has a reputed set of clients like Bank of Montreal, Depositary Trust & Clearing Corp (DTCC) USA, Tokyo Marine, Xerox Corporation, American Express, Credit Suisse, General Electric etc.

Strategic alliances and acquisitions
BSIL has entered into strategic alliances with various business partners to widen the gamut of their service offerings. The company has alliances with companies like HP, IBM, Microsoft, Oracle and SAP for various services.

Key Rating Weaknesses

Client concentration and geographical concentration risk
BSIL is exposed to client concentration risk as revenue from top 5 customers forms 34% of total revenue in FY17. Further during FY17, revenue from GE group contributed around 38% of total revenue of the company (around 45% of total revenue in FY16), with which company had a long standing relationship of nearly a decade. However, during H1FY18, the company has sold major chunk of GE customer portfolio to Genpact and is now exploring opportunities to diversify its client base.
Also, the company's sales are highly geographically concentrated with USA accounting for 83% of the total sales followed by Europe – 12% and Asia pacific (including India) – 5%.

Dependence on economic conditions of the foreign markets
The company derives its revenues primarily from exports (of services) and exposes it to the economic conditions of the host countries. The company's exports are highly concentrated with majority of revenues being generated from USA which in the past has been exposed to economic downturn including the financial crisis (2007-08) and sub-prime crisis. Protectionist measures adopted by the US remain yet another business challenge for Indian IT companies. Any change in the economic conditions or change in working environment/regulatory framework in host countries will directly impact the operations of the company.

Exposure to foreign currency fluctuation
BSIL is exposed to foreign currency fluctuation risk with more than 96% of its revenues being generated from exports. The realization from BSIL's customers is in foreign currency and is exposed to the conversion risk of the currency. However, the company manages its foreign currency risk for forecasted sales by hedging transactions that are expected to occur within a maximum 12 month period by using foreign currency forward contracts.

Intense competition
The company faces stiff competition from well-established IT companies like I Gate, Genpact, Tech Mahindra, TCS and Polaris which compete in the same segment. The strategic alliances and intellectual property has enabled the company to build repute and gain customer confidence for service delivery.

Analytical approach: Consolidated; CARE has considered the consolidated financials as the group provides IT related services through BSIL and its subsidiaries.

Applicable Criteria
Criteria for placing rating on credit watch
CARE's Policy on Default Recognition
Financial Ratios – Non Financial Sector
CARE's Methodology for Service Sector Companies

About the Company
BSIL, part of CK Birla Group, was incorporated in 1995. BSIL is chaired by Mrs Amita Birla, wife of Mr CK Birla, who is also one of the directors in the company. The company is headed by Mr Anjan Lahiri, Managing Director & CEO, who joined BSIL in April 2015.
BSIL is a global provider of IT solutions and services with operations across USA, Europe and APAC region. The company provides services in the areas of software development, package implementation, application management and testing. The main focus of the company is software implementation, testing and product development. BSIL leverages its domain knowledge in the areas of banking, financial services, manufacturing, healthcare and ERP implementation. BSIL has global development delivery centres in USA, UK, Poland and India.
As per the merger-demerger deal between BSIL and KPIT, BSIL will first merge with KPIT(with two business verticals-IT enabled services and engineering services) after the closing of open offer made by BSIL to the public shareholders of KPIT and allocation of shareholding of merged entity would be done as per the valuations of both the entities and later will

demerge into two companies- one with IT business (which would be named as Birlasoft) and other with engineering business (which would be named as KPIT).

As per the management of Birlasot, this whole process will take about a year and will involve necessary approvals (including National Company Law Tribunal and Competition Commission of India) and in the intervening period, both the companies will work under their own name. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1082.23	1109.21
PBILDT	158.21	160.97
PAT	90.07	97.72
Overall gearing (times)	0.00	0.00
Interest coverage (times)	103.28	162.61

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:
Name: Mr Gaurav Dixit
Tel: 011- 45333235
Mobile: +91 9717070079
Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.75#	CARE A+ (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	30.00*	CARE A+ (Under Credit watch with Developing Implications)

#including sublimit of Rs. 0.75 crore for TCDC
*including sublimit of Rs. 15.00 crore for WCDL

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	30.75	CARE A+ (Under Credit watch with Developing Implications)	-	1)CARE A+; Stable (31-Mar-17) 2)CARE A+ (12-Apr-16)	1)CARE A+ (20-Apr-15)	1)CARE AA- (SO) (27-Jan-15)
2.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (31-Mar-17) 2)CARE A1+ (12-Apr-16)	1)CARE A1+ (20-Apr-15)	1)CARE A1+ (SO) (27-Jan-15)
3.	Fund-based - LT-Working Capital Limits	LT	30.00	CARE A+ (Under Credit watch with Developing Implications)	-	1)CARE A+; Stable (31-Mar-17) 2)CARE A+ (12-Apr-16)	1)CARE A1+ (20-Apr-15)	1)CARE A1+ (SO) (27-Jan-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691