

Birlasoft Limited

January 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	450.00 (60.75)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+ (Under Credit Watch with Developing Implications)
Total	450.00 (Rupees Four Hundred and Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Birlasoft Limited (Birlasoft) have been removed from 'Credit Watch with Developing Implications' as CARE has analyzed the impact of the declared composite scheme of merger demerger deal of Birlasoft (India) Limited (BSIL) and KPIT Technologies Limited (KPIT) on the financial risk profile of ultimate demerged company (i.e. Birlasoft Limited).

CARE had placed the rating on credit watch on March 29, 2018, following announcement of the composite scheme of arrangement among Birlasoft (India) Limited, KPIT Technologies Limited and KPIT Engineering Limited and their respective shareholders for amalgamation of Birlasoft (India) Limited (Birlasoft) with KPIT Technologies Limited (KPIT) (Merger) and demerger of the engineering business of KPIT into KPIT Engineering Limited (KEL), a wholly-owned subsidiary of KPIT (Demerger).

The revision in the ratings assigned to the bank facilities of Birlasoft Limited takes into account strengthening of the financial risk profile and increased business capabilities and market position of the ultimate demerged company post the amalgamation of IT business of KPIT Technologies Limited and Birlasoft (India) Limited. Further, the ratings continue to derive strength from its strong parentage being part of C.K Birla group with long track record in IT consulting business, diversified service offerings of the company (post-merger), reputed client base and alliances entered by the company to drive business growth. The ratings also factor in the comfortable financial risk profile of the company marked by zero long term debt & healthy debt protection parameters and its strong liquidity position. These rating strengths are, however, partially offset by the geographical concentrated operations of the company and its dependence on economic conditions of the foreign markets & exposure to foreign currency fluctuation risk.

Key Rating Sensitivities

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

Positives

- Significant improvement in the consolidated scale of operations and profitability margins (PBILDT Margin of more than 18%) leading to improvement in its financial risk profile on a sustained basis.
- Diversification of its clientele in different geographies and effective management of forex exposure

Negatives

- Any Significant bad debts or increase in trade receivable days of the company for more than 120 days in any of the year going forward.
- Significant deterioration in its capital Structure (having Overall Gearing of more than 0.50x) in any of the year going forward.
- Decline in PBILDT Margin (PBILDT Margin of less than 8%) in any of the year going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Part of established and diversified CK Birla Group

C.K. Birla group, established by late Shri B.M. Birla, is a leading industrial group of the country and 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. The CK Birla Group is one of the leading Indian conglomerate with over 25,000 employees, 41 manufacturing facilities, 21 service delivery locations and numerous patents and awards. The other major group companies includes National Engineering

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Industries Limited (rated CARE AA-; Stable/ CARE A1+), Orient Cement Limited (rated CARE AA-; Stable/ CARE A1+), HIL Limited, Avtec Limited, Orient Paper & Industries Limited (rated CARE AA-; Stable/ A1+), Neosym Industry Limited, Orient Electric Limited (rated CARE AA-; Stable/ CARE A1+) and GMMCO Limited (rated CARE AA+; Stable/ CARE A1+).

Experienced promoters

Birlasoft is promoted by National Engineering Industries Ltd (with 36.30% stake in Birlasoft as on September 30, 2019) which is a pioneer in the field of bearing manufacturing in India, is engaged in manufacturing of various types of ball & roller bearings with its three plants being located at Jaipur & Newai (Rajasthan) and Manesar (Gurgaon, Haryana). 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. The company is headed by Mr. Dharmander Kapoor, Managing Director & CEO, w.e.f. June 01, 2019. He has 30 years of experience in Leadership, Go-to-market Business Development, Enterprise IT delivery, Consulting/Transformation and Software Product Engineering.

Strategic alliances

Birlasoft has entered into strategic alliances with various business partners to widen the gamut of their service offerings. Their key alliances include Oracle, JD Edwards, SAP, Infor and Microsoft. Birlasoft is a Microsoft Gold Certified partner with competencies in multiple technology areas, including, Microsoft Dynamics Partner for Enterprise Solution Implementation, Microsoft Azure Cloud among others.

Birlasoft was awarded with SAP® North America Partner Excellence Award 2019 for Customer Experience, also recognized as a market leader for SAP Services and according to ISG Birlasoft was named SAP Hybrid Americas Service Delivery Partner of the year. Birlasoft won the Oracle Excellence Award 2018- “SCM cloud partner of the year” at the Oracle India Partner Forum FY19. Birlasoft also received Distinguished Partner Award in the ‘Process Innovation- Complement JDE with SaaS.

Well diversified and reputed clientele

Birlasoft is having around 400 active clients across multiple segments. Birlasoft is having reputed and diversified clients across various industry verticals ranging from Hitech & Media; BFSI; Energy & Utilities; CPG, Retail & Process Manufacturing, Lifescience and Automotive. Top 10 clients of the company contributes around 37% of its total revenue. The company has overseas branches in USA, Canada, Brazil, UK, Germany, France, Japan, Singapore, South Africa, South Korea, UAE, Australia, Malaysia, Netherland, Poland, Switzerland and Sweden. Also, the amalgamation of Birlasoft with KPIT’s IT services business has broadened the customer base and offerings, which will assist in new customer acquisitions and expansion of business.

Diversified Service Offerings

Company is providing various digital and IT related services to its client. Around 53% of its business is derived from ERP centric services (Integrated Enterprise Solutions and SAP), around 30% of business from high growth digital services like Cloud, CRM, BI & Data Analytics (Digital transformation) and remaining around 17% of business is derived from Custom application services & other horizontals in IT related services. Birlasoft help its customers from planning to implementation and support for Oracle and JD Edwards (as a part of Integrated Enterprise solutions). Further, Birlasoft offers high end SAP implementation and support services ranging from the core ERP suite of applications to the latest technologies across the full spectrum of SAP applications.

In the Digital Transformation, Birlasoft manages complete lifecycle of data in an organization encompassing Data Science, Data Warehousing and integration, Big Data and Data Lake, MDM, Governance and visualisation. Birlasoft also provides consulting and IT services in the area of supply chain management and provides advisory, implementation and Support Services and Solutions CRM Platforms like salesforce, Microsoft Dynamics, SAP CRM and Oracle CRM.

Further, Birlasoft also provides services in customer application development including applications and infrastructure outsourcing, applications and digital solutions development, CIO’s portfolio transformation, legacy modernisation, IT services management and program management.

KPIT Technologies limited (before merger- demerger process) had strengths in ERP Centric services and Birlasoft (India) Limited had strengths in Digital Transformation & Custom Application Development.

Birlasoft charges a fixed amount for the development of software/infrastructure as per the mandate given by its customers for the fixed price contracts. The price of the solution developed is governed by the complexity of the requirements. Once the price is agreed, payment milestones are clearly defined and agreed between Birlasoft and its customers. Also Birlasoft provides skilled engineers to its customers to service their needs as a part of time and material services. Birlasoft invoices the customers based on the effort spent by its engineers as per the rates agreed beforehand.

Further, the revenue from time and material type of services stood at around 58% and from fixed price contract stood at 42% for Q2FY20 (54.8% from time & material and 45.2% from fixed price for Q1FY20) of the combined entity.

Healthy financial risk profile marked by strong debt protection metrics

The company continues to maintain a healthy financial risk profile with a strong capital structure marked by zero debt as on Sep 30, 2019. The company has comfortable debt protection metrics driven by its robust cash flows on account of steady-state revenues with a healthy interest coverage ratio at 30x in FY19 (20x in H1FY20) and Total Debt/GCA of 0.12x in FY19 (0.00x in H1FY20).

The company doesn't have any long term debt as on March 31, 2019 and only has working capital borrowings of Rs. 38.12 crore, which became nil as on Sep 30, 2019. Total operating Income of the company for FY19 (A) was Rs. 2562.68 crore which is for 9 months (refers to the period of April 01, 2018 to December 31, 2018) income of Birlasoft (India) Limited and 9 months (refers to the period of April 01, 2018 to December 31, 2018) income from IT business of KPIT Technologies Limited and 3 months (refers to the period of Jan 01, 2019 to March 31, 2019) income of Birlasoft limited (new resultant entity). Total operating Income of the company on proforma basis (of KPIT IT Services and Birlasoft (India) Ltd) stood at Rs. 3353.50 crore in FY19 as against Rs. 3208.44 crore in FY18. PBILDT Margin of the company on proforma basis stood at 12.70% in FY19 as against 11.91% in FY18. Total Operating Income of the company (for new entity i.e. Birlasoft Limited) for H1FY20 stood at Rs. 1550.61 crore at PBILDT Margin of 11.22%.

Capital Structure of the company is comfortable characterized by strong net-worth base and zero debt as on Sep 30, 2019 (as against working capital borrowings of Rs. 178.1 crore as on Jan 01, 2019, Rs. 38.1 crore as on March 31, 2019 and Rs. 0.20 crore as on June 30, 2019).

Strong Liquidity

The company has strong liquidity, with Cash and Bank balance at Rs. 473.0 crore and investments in mutual funds of Rs. 69.5 crore as on Sep 30, 2019 (Rs. 460.1 crore and investments of Rs. 17.5 crore as on June 30, 2019) as against cash and bank balance of Rs. 377.2 crore and investments of Rs. 190.9 crore as on March 31, 2019. Further, company is generating healthy accruals and doesn't have any major capex plans which also aided the liquidity profile of the company. GCA of the company for FY19 was Rs. 321.31 crore and was Rs. 115.51 crore for H1FY20. Current ratio of the company also remains comfortable at 2.33x as on March 31, 2019 (2.66x as on Sep 30, 2019). Average working capital utilisation of the company remains minimal at 3.95% in the past 8 months ending October, 2019.

Key Rating Weaknesses

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. Further, changes in the local immigration laws in countries in which Birlasoft operates, can impact mobility of resources. These changes can disrupt the business for some client locations. Any change in the economic conditions or change in working environment/regulatory framework in host countries will directly impact the operations of the company.

However, to mitigate this risk, the company increased its intake in these markets by hiring locally and reducing dependence on resources on work visa. The Company is also engaging with some customers to increase off-shoring of some roles to reduce onsite requirement to address the resource mobility issue. The company is continuously monitoring the changes in local immigration law or guidelines to mitigate the impact, if any.

Geographically Concentrated Operations

Operations of the company are geographically concentrated as US based clients contributed around 78% of the total revenue of the company while Europe based clients contributed around 11% during FY19. Company is providing both on-shore and off-shore services to global clients as per the client requirements. The revenue from off-shore services remains around 45% of total revenue of the company. The strategy of the Company is based on focusing on a select number of industry verticals, geography, customers and offerings, leading to possibility of business being concentrated in a particular area with consequential volatility, however to mitigate the risk company has been focussing to diversify the clientele in different geographies.

Exposure to foreign currency fluctuation

The Company's exchange risk arises from its foreign currency revenues (primarily in U.S. Dollars). A significant portion of the company's revenue is in foreign currencies (more than 90% in FY19), while a significant portion of its corresponding costs are in Indian Rupee. The primary cost of the company is employee cost (which is around 69% of its total cost of sales in FY19) and around 51% employees' expenses are in Indian Rupee. However, the risk mitigates to some extent on account of natural hedging in the form of payables in foreign currency. Further, the Company evaluates net exchange rate exposure based on current revenue projections and expected volatility in the market and covers its exposure up to 75% on net basis by using foreign currency derivative instruments which mitigates the risk to some extent. During FY19, the company has booked a net foreign exchange fluctuation loss of Rs. 2.54 crore (net foreign currency fluctuation gain of Rs. 15.17 crore in FY18).

Analytical approach: Consolidated; CARE 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.

Note: The particulars of subsidiary companies which are included in consolidation and the parent company's holding (direct and indirect) therein are as under:

S.No.	Name of the Company	% of the shares held by Birlasoft Ltd.
1	KPIT Infosystems Ltd.(UK)	100%
2	Birlasoft (UK) Limited	100%
3	KPIT Technologies France	100%
4	KPIT Solution GmbH, Germany	100%
5	Birlasoft GmbH, Germany	100%
6	Birlasoft Solution Inc.	100%
7	Birlasoft Inc., USA	100%
8	Enable Path LLC, USA	100%
9	Birlasoft Technologies Canada Corporation	100%
10	Birlasoft Computer Corporation, USA	100%
11	KPIT Technologies Solucoes Em Informatica Ltda., Brazil	100%
12	Sparta Consulting Inc., USA	100%
13	KPI Infosystems Mexico S.A. DE C.V.	100%
14	Birlasoft Sdn Bhd, Malaysia	100%
15	KPIT Infosystems ME FZE, UAE	100%

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term Instruments](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[CARE's Criteria for Factoring Linkages in Ratings](#)

[CARE's Methodology for Service Industry](#)

About the Company

Birlasoft Limited, (Birlasoft) is a part of C.K. Birla Group and was incorporated in 1995. Birlasoft is chaired by Mrs. Amita Birla, wife of Mr. CK Birla, who is also one of the directors in the company. Birlasoft is a global provider of IT solutions and services with operations across USA, Europe and APAC region. Birlasoft with its around 10,000 technical force is providing various digital and IT related services to its client in the areas of software development, package implementation, application management and testing domain, enterprise and digital technologies.

After the merger of KPIT's IT business with Birlasoft, it has strengthened its position in SAP, Oracle, JDE and other related areas of enterprise services with core digital strengths in Custom Application Development and Maintenance, Sales Force, Data and Analytics and positioned to capture the opportunities in the enterprise digital space.

Birlasoft leverages its domain knowledge in the areas of banking, financial services, manufacturing, healthcare, lifescience, automotive, energy & utilities, retail & process manufacturing and Discrete manufacturing (Hi tech Media). Birlasoft is a CMMI Level 5 Organization (CMMI-DEV® (Development) & CMMI-SVC® (Services) V1.3 at Maturity Level 5). Birlasoft is also compliant with ISO 9001:2015 and ISO 20000-1:2011 certification for IT Services and ISO 27001:2013 certifications for Information Security Management.

The Board of Directors of KPIT Technologies Limited, at its meeting held on January 29, 2018, had approved a Composite Scheme of arrangement (merger-demerger deal) among Birlasoft (India) Limited (BSIL), KPIT Technologies Limited (KPIT) and KPIT Engineering Limited and their respective shareholders ("Scheme"). As per the merger-demerger deal Birlasoft (India) Ltd merged and amalgamated with KPIT Technologies Limited (with two business verticals-IT enabled services and engineering services) (Merger) leading to formation of a combined entity (KPIT Technologies Limited); and at the same time the engineering business of the KPIT Technologies Limited which was on a going concern basis, demerged and was transferred to an independent entity (KPIT Engineering Limited) on Jan 15, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2272.02	2562.68
PBILDIT	305.52	325.46
PAT	191.19	235.39
Overall gearing (times)	0.24	0.03
Interest coverage (times)	37.56	30.02

A: Audited

Note: The appointed date of merger and demerger being 1st January 2019, the full year financial results for FY19 for Birlasoft Ltd are for nine months of KPIT's IT services business and three months of the merged entity (Birlasoft Ltd and KPIT IT Service business). Hence, the Financial Results for FY19 for Birlasoft Ltd are not comparable with the previous year's financials. The financials of FY18 stood for KPIT IT Service business. The Birlasoft (India) Limited and IT services of KPIT has merged effective from Jan 15, 2019 and audited results of combined entity has been prepared by the company from Q4FY19 onwards (with appointment date as January 01, 2019).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	420.00	CARE AA-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	30.00	CARE AA-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	420.00	CARE AA-; Stable	1)CARE A+ (Under Credit watch with Developing Implications) (04-Apr-19)	-	1)CARE A+ (Under Credit watch with Developing Implications) (29-Mar-18)	1)CARE A+; Stable (31-Mar-17) 2)CARE A+ (12-Apr-16)
2.	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (31-Mar-17) 2)CARE A1+ (12-Apr-16)
3.	Fund-based - LT-Working Capital Limits	LT	30.00	CARE AA-; Stable	1)CARE A+ (Under Credit watch with Developing Implications) (04-Apr-19)	-	1)CARE A+ (Under Credit watch with Developing Implications) (29-Mar-18)	1)CARE A+; Stable (31-Mar-17) 2)CARE A+ (12-Apr-16)

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.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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