

**Birlasoft Limited**  
**(Erstwhile Birlasoft (India) Limited)**

April 04, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	60.75	CARE A+ (Single A Plus) (Under Credit Watch with Developing Implications)	Continues to be on credit watch with developing implications
<b>Total</b>	<b>60.75</b> <b>(Rupees Sixty crore and Seventy Five lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to the bank facilities of Birlasoft Limited (Birlasoft – erstwhile Birlasoft (India) Limited) continues to be on “Credit Watch with Developing Implications” following the possible implications of the merger demerger deal of Birlasoft (India) Limited (BSIL) and KPIT Technologies Limited (KPIT) on the capital structure of ultimate demerged company (i.e. Birlasoft Limited). 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 Limited 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 sound liquidity position.*

*These rating strengths are, however, partially offset by the company’s dependence on economic conditions of the foreign markets, 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**

During FY18, Birlasoft had exited from most of the GE business by selling off the GE customer Master Services Agreement (MSA) to Genpact by transferring of MSA and all related technical software tools required for running the business and rebadging all the related employees to Genpact. As a part of the agreement, Rs. 106.83 crore (16 million dollars) was paid by Genpact to Birlasoft. During FY17, GE contributed around 38% of total revenue of the company (45% in FY16). As a result, total operating income of the company has declined from Rs. 1109.21 crore in FY17 to Rs. 915.49 crore in FY18.

The company has diversified revenue streams with revenue coming from banking financial services and insurance as well as manufacturing and services industries segment.

PBILDT Margin of the company declined from 14.51% in FY17 to 5.88% on account of churn out of GE Business, increase in legal and professional fees from Rs. 113.37 crore in FY17 to Rs. 133.94 crore in FY18, increase in rent expenses from Rs. 19.11 crore in FY17 to Rs. 32.00 crore in FY18.

However, PAT Margin of the company increased from 9.33% in FY17 to 12.50% in FY18 as company has booked an extra ordinary income of Rs. 106.83 crore for selling of its GE customers Portfolio to Genpact.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Birlasoft doesn't have any long term debt outstanding as on March 31, 2018 and cc utilisation of Rs. 2.19 crore as on March 31, 2018.

### **Sound Liquidity Position**

Birlasoft is having comfortable liquidity position marked by zero long term debt as on March 31, 2018 and healthy cash balance. The healthy cash accruals have resulted in lower working capital utilization for the company leading to comfortable solvency position with tangible networth of Rs.485.51 crore as on March 31, 2018. BSIL had free cash & bank equivalents of Rs. 35.78 crore as on March 31, 2018 (Rs.69.40 crore as on March 31, 2017) and investments in form of mutual funds of Rs. 165.82 crore as on March 31, 2018 (Rs. 146.30 crore as on March 31, 2017).

Further, Current ratio of the company stood comfortable at 3.51x as on March 31, 2018 (3.26x as on March 31, 2017).

### **Reputed client base**

The company has overseas branches in Singapore, Australia, Sweden, Switzerland, Canada, Dubai and The Czech Republic. BSIL has a reputed set of clients like Bank of Montreal, Depository Trust & Clearing Corp (DTCC) USA, Tokyo Marine, Xerox Corporation, American Express, Credit Suisse, Pricewater House Coopers 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**

#### ***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***

The company is exposed to foreign currency fluctuation risk as the company is primarily an export oriented unit with majority (more than 95%) of its revenues being generated from exports. 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. The particulars of subsidiary companies which are included in consolidation are as under:

S.No.	Company Name
1	Birlasoft Inc. (USA)
2	Enable Path LLC (subsidiary of Birlasoft Inc. USA)
3	Birlasoft (U.K) Limited (subsidiary of Birlasoft Inc. USA)
4	Birlasoft GmbH, Germany (subsidiary of Birlasoft (U.K) Limited)
5	Birlasoft Sdn. Bhd, Malaysia (subsidiary of Birlasoft (India) Ltd)

### **Applicable Criteria**

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[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

Birlasoft Limited (Erstwhile Birlasoft (India) Limited) is a 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. He is one of the founders of IT firm Mindtree and also started Cambridge Technology Partners' internet services consulting practice in the USA.

Birlasoft 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 and testing whereas the product development forms small fraction of its operating income. BSIL leverages its domain knowledge in the areas of banking, financial services, manufacturing, healthcare and ERP implementation. BSIL has global development centers in USA, UK, China, Poland and India.

As per the merger-demerger deal between BSIL and KPIT, BSIL has merged 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 w.e.f. Jan 15, 2019 and allocation of shareholding of merged entity would be done as per the valuations of both the entities and later demerged into two companies- one with IT business (named as Birlasoft Limited w.e.f. Feb 08, 2019) and other with engineering business (named as KPIT Engineering Limited w.e.f. March 13, 2019).

CARE team is continuously monitoring the developments in this regard and is in discussion with management of Birlasoft Limited for understanding the structure of company including its shareholding, capital structure including division of debt between the two entities; any changes in business and financial profile, etc. and updated financials. CARE 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)	FY17 (A)	FY18 (A)
Total operating income	1109.21	915.49
PBILDT	160.97	53.84
PAT	97.72	116.93
Overall gearing (times)	0.00	0.00
Interest coverage (times)	162.61	57.93

A: Audited

### About KPIT Technologies Limited (KPIT)

KPIT Technologies Limited is a global technology company specializing in providing IT Consulting and Product Engineering solutions and services to Automotive, Manufacturing, Energy & Utilities and Life Sciences companies. Together with its customers and partners, it creates and delivers technologies to enable creating a cleaner, greener and more intelligent world that is sustainable and efficient.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### 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.

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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)

#### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	30.75	CARE A+ (Under Credit watch with Developing Implications)	-	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)	1)CARE A+ (20-Apr-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)
3.	Fund-based - LT-Working Capital Limits	LT	30.00	CARE A+ (Under Credit watch with Developing Implications)	-	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)	1)CARE A1+ (20-Apr-15)

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