

Birlasoft Limited
November 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	243.70	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total	243.70 (Rupees Two hundred and forty three crore and seventy lakhs only)		

**Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating 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, diversified service offerings of the company, 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 strong debt protection metrics 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.

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.

Key Rating Sensitivities:**Positive factors**

- 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.

Negative factors

- Any incremental sizable debt-funded acquisition that can moderate the capital structure leading to overall gearing of more than 0.50x.
- Slow-down in key verticals leading to significant pressure on the income and decline in PBILDT Margin of less than 8% in any of the year going forward
- Any change in visa related norms in US affecting the onsite operations of the company.

Detailed description of the key rating drivers**Key Rating Strengths****Part of established and diversified CK Birla Group**

Birlasoft is a part of CK Birla Group. Established by late Shri B.M. Birla, CK Birla Group 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 conglomerates 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 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 A+; Stable/ CARE A1+) and GMMCO Limited (rated CARE AA+; Stable/ CARE A1+).

Experienced promoters

Birlasoft is promoted by National Engineering Industries Ltd (with 37.80% stake in Birlasoft as on June 30, 2020) 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. Dharminder Kapoor, Managing Director & CEO, w.e.f. June 01, 2019. He holds a Masters degree from Kurukshetra University, India and has over 30 years of experience in Leadership, Go-to-market Business Development, Enterprise IT delivery, Consulting/Transformation and Software Product Engineering.

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

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 named 'Top 15 Technology Services Provider' by Information Services Group (ISG) and also won 'Distinguished Partner Award' at the Oracle JD Edwards Summit 2019. It was among the leading providers in the Booming 15 category for the Americas region based on annual contract value (ACV) won over the last 12 months, according to the 1Q 2020 Global ISG Index™. Birlasoft was acknowledged 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.

Well diversified and reputed clientele

Birlasoft is having around 356 active clients (as on June 30, 2020) across multiple segments. Birlasoft is having reputed and diversified clients across various industry verticals ranging BFSI, Manufacturing, Energy & utilities and Lifesciences. The company has overseas subsidiaries 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.

The Top 10 clients contribute 42.5% of the revenue of the company in last 12 months ending June 30, 2020 (40.1% of the revenue in the last 12 months ending March 31, 2020). Further, 8 clients contributes more than USD 10 mn+ in the last 12 months ending June 30, 2020 exposing it to considerable revenue concentration risk. The company mitigates this risk to a large extent by maintaining a balance between various industry verticals, customers, geographies or offerings.

Diversified Service Offerings

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. The merger brought together very complementary skill sets from both businesses. Birlasoft (India) Ltd had strengths primarily on the non-ERP Digital businesses like CRM, BI & Data Analytics and Application Development, while KPIT's IT Services possessed core strengths on the Enterprise Software Solutions like Oracle, JD Edwards, SAP, Infor etc. and capabilities in Digital Transformation services. Around 44% of its business is derived from ERP centric services (Integrated Enterprise Solutions and SAP), around 26% of business from high growth digital services like Cloud, CRM, BI & Data Analytics (Digital transformation) and remaining 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. 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.

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 47.80% and from fixed price contract stood at 52.20% for Q1FY21.

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 June 30, 2020 and comfortable liquidity position as reflected in its strong debt protection matrices.

The total operating income of the company in FY20 stood at Rs. 3322.32 crore as against Rs. 3353.50 crore in FY19 (on a combined basis of KPIT (for 9 months) & Birlasoft (for 3 months)). In FY20, the company won deals of ~\$669 Mn of which 64% were new deals. The profitability margins marginally improved to 12.74% in FY20 (PY: 12.70%) while the PAT margin moderated to 6.75% as compared to 9.19% during the previous year on account of increase in depreciation and interest expenses on account of adoption of IND AS 116 with effect from April 1, 2019. Also in FY19, there was deferred tax benefit of ~Rs. 20.73 crore.

The capital structure of the company is comfortable characterized by strong net-worth base and zero fund-based debt as on March 31, 2020 (only lease liabilities of Rs. 145.03 crore). Tangible Networth of the company stood at Rs. 1421.46

crore as on March 31, 2020 (Rs. 1269.88 crore as on March 31, 2019). The company has comfortable debt protection matrices driven by its robust cash flows on account of steady-state revenues. The company had interest coverage ratio of 26.25x in FY20 and Total Debt/GCA of 0.47x in FY20.

Q1FY21 Performance:

During Q1FY21 Birlasoft witnessed 15% growth in its total operating income to reach Rs. 906.51 crore as compared to Rs. 785.64 crore in Q1FY20. Further, the PBLDT margins improved to 11.56% in Q1FY21 from 10.90% in Q1FY20. The margins have improved due to increase in employee utilization which increased from ~74% in Q1FY20 to ~78% in Q1FY21 along with increase revenue contribution from offshore services and increase in fixed price contracts. The total fund based borrowings as on June 30, 2020 stood nil.

Strong Liquidity

The liquidity profile of the company is strong marked by free Cash and Bank balance of Rs. 887.60 crore as on September 30, 2020. The free cash & bank balance stood at Rs. 629.31 crore as on March 31, 2020 and current investments of Rs. 33.02 crore. Against which the company has nil debt repayment obligations.

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 FY20 was Rs. 307.62 crore and Rs. 72.17 crore for Q1FY21. Current ratio of the company also remains comfortable at 2.76x as on March 31, 2020 (PY: 2.35x) on account of healthy cash and bank balance and high trade receivables. Average working capital utilisation of the company remains minimal at 2% in the past 12 months ending August 2020.

Key Rating Weaknesses

Geographically Concentrated Operations

Operations of the company are geographically concentrated as US based clients contributed around 75% of the total revenue of the company while Europe based clients contributed around 15% during Q1FY21 (79% and 11% respectively in FY20). 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 44% 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 FY20), while a significant portion of its corresponding costs are in Indian Rupee. The primary cost of the company is employee cost (which is around 67% of its total cost of sales in FY20) and around 45% employees' expenses are in foreign currency. 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 FY20, the company has booked a net foreign exchange fluctuation gain of Rs. 23.11 crore (PY: loss of Rs. 2.54 crore).

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.

Industry Outlook

The IT Services market is facing an unprecedented set of challenges as a result of COVID-19. This creates both headwinds and opportunities for growth in the industry. The market reaction to the pandemic has followed the initial expected pattern of rationalization of IT spend. As the market emerges from successive lockdowns, the focus is shifting to prioritize spend, based on cost constraints and business priorities. As a result many transformation programs will get pushed out to the following year. Industry analysts predict a worldwide IT spend decline of 8% YoY on account of the pandemic and associated recession as the reason CIO's are reprioritizing spend on "mission critical" technology and services. This

includes an urgent focus on cost containment and operations that keep the business running. According to the IMF, the global economy is projected to contract sharply by 3% in 2020, much worse than during the 2008–09 global financial crisis. However, it presumes that the pandemic fades in the second half of 2020, and containment efforts can gradually be unwound: as a result the global economy could grow by 5.8% in 2021 as economic activity begins to come back to more normal level.

The growth in advanced economies, which accounts for over 80% of Indian IT exports, is expected to decline by a sharp 6%. The US is expected to decline by 6.1%, the Eurozone by 5.9%, and the UK also by a decline of 6.5%. The pandemic is also changing the delivery and consumption model for IT Services leading to opportunities for IT service providers. For a significant number of roles in certain industry segments, WFH is and will become the norm going forward. The focus on cyber security, network connectivity, resilience and related business processes are opportunity areas for IT Services. Cost constraints due to reduced budgets are accelerating the adoption of a consumption model. Movement to the Cloud and As-a-Service model provides further opportunities to help customers become more efficient. Digitizations of channels to market are creating omni channel opportunities which bring additional opportunities for both simplification and automation of the underlying business processes and related supply chains.

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	Birlasoft Solution Inc.	100%
2	Birlasoft Solutions France	100%
3	Birlasoft Computer Corporation, USA	100%
4	Birlasoft Solutions ME FZE	100%
5	Birlasoft Solutions Ltda	100%
6	Birlasoft Consulting Inc.	100%
7	Birlasoft Solutions Mexico, S.A. DE. C.V	100%
8	Birlasoft Technologies Canada Corporation	100%
9	Birlasoft Solutions GmbH	100%
10	Birlasoft Solutions Limited	100%
11	Birlasoft Inc.	100%
12	Enable Path LLC	100%
13	Birlasoft (UK) Limited	100%
14	Birlasoft GmbH	100%
15	Birlasoft Sdn Bhd	100%

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Financial Ratios - Non-Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology - Service Sector Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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.

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. Later on February 8, 2019, the name of

the combined entity, resulting from the merger and the demerger was changed from KPIT Technologies Ltd to Birlasoft Limited. The demerged entity i.e. KPIT Engineering Limited was renamed KPIT Technologies Limited on March 13, 2019. 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.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2555.66	3322.32
PBILDT	318.44	423.27
PAT	292.16	224.35
Overall gearing (times)	0.03	0.10
Interest coverage (times)	29.37	26.25

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 FY20 for Birlasoft Ltd are not comparable with the previous year's financials.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: 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	-	-	-	213.70	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	213.70	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jan-20) 2)CARE A+ (Under Credit watch with Developing Implications) (04-Apr-19)	-	1)CARE A+ (Under Credit watch with Developing Implications) (29-Mar-18)
2.	Fund-based - LT-Working Capital Limits	LT	30.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Jan-20) 2)CARE A+ (Under Credit watch with Developing Implications) (04-Apr-19)	-	1)CARE A+ (Under Credit watch with Developing Implications) (29-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Working Capital Limits	Simple

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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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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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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