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Margin stabilises, albeit topline growth remains elusive!

About the stock: Birlasoft Limited (Birlasoft), is the global technology services division of the 'CKA Birla Group'. It merged with KPIT's IT Services business in 2019. It caters to four verticals - Manufacturing, BFSI, Energy & Utilities (E&U) and Lifesciences

Q4FY26 & FY26 Performance: Revenue stood at US\$ 145.3 mn (₹1,348.6 crore), down 3.7% QoQ/ 5.1% YoY in CC terms. Reported EBITDA margin came at 18.5%, up ~30 bps QoQ. Reported PAT stood at ₹176 crore, up 46.7% QoQ. For FY26, revenue stood at US\$ 597.5 mn, down 6% YoY (-6.5% YoY CC). Reported EBITDA margin was 16.3%, up ~333 bps YoY while PAT came at ₹518 crore, up 0.3% YoY.

Investment Rationale

- Growth recovery hinges on sales rebuild and AI-led execution:** Birlasoft has undertaken a broad-based leadership and sales restructuring to revive growth after six consecutive quarters of weak revenue performance. **Management highlighted that most client-specific issues, particularly in the med-tech and manufacturing segment, are now behind and expects FY27 to improve with 30–40% expansion in sales capacity by mid-FY27, strengthened AI-led capabilities and investments across ERP, data & AI and partnerships.** The company is also pivoting towards outcome-based and managed services engagements to improve pipeline conversion and drive medium-term growth recovery. However, it continues to face a difficult demand environment marked by macro uncertainty, delayed discretionary spending and weak client decision-making, particularly across manufacturing and life sciences. **Net-new TCV wins remained soft at US\$41 mn in Q4FY26 despite overall TCV staying above US\$200 mn for the second consecutive quarter, reflecting slower conversion of new opportunities.** Accordingly, we now expect dollar revenue to grow at ~2.5% CAGR over FY26-28E.
- Margin expansion reflects better revenue quality:** Despite continued revenue pressure, Birlasoft delivered strong profitability improvement with EBITDA margins expanding ~333 bps YoY to 16.3% in FY26 and 18.5% in Q4FY26, marking the third consecutive quarter of margin expansion. The improvement was driven by operational efficiencies, offshore leverage, currency tailwinds and strategic exit from low-margin and non-scalable contracts. Management indicated that around ~200 bps of FY26 revenue decline was attributable to deliberate portfolio rationalization, highlighting its focus on improving revenue quality and long-term profitability over low-quality growth. **Increased investments in sales, AI platforms and leadership hiring could normalize margins towards the 15%+ range over the medium term. We bake in EBITDA margins of 15.5%/15.6% in FY27E/FY28E.**

Rating and Target Price

- We maintain **HOLD**, with target price of ₹400; valuing it at 17x P/E on FY28E EPS vs ₹440 earlier.

Key Financial Summary

₹ Crore	FY24	FY25	FY26	5 Year CAGR (FY21-26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
Net Sales	5,278	5,375	5,310	8%	5,280	5,649	3%
EBITDA	836	697	866	10%	818	881	1%
EBITDA Margins (%)	15.8	13.0	16.3		15.5	15.6	
Net Profit	624	517	518	10%	607	668	13%
EPS (₹)	22.3	18.5	18.4		21.6	23.7	
P/E	16.3	19.7	19.7		16.8	15.3	
RoNW (%)	20.5	14.9	12.6		13.2	12.9	
RoCE (%)	26.9	19.6	19.5		17.4	17.0	

Source: Company, ICICI Direct Research



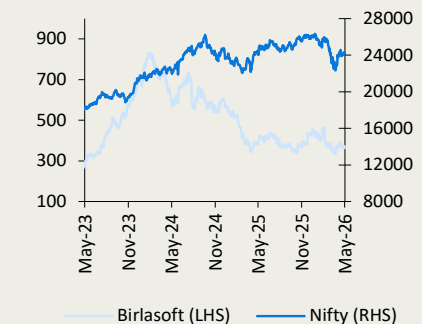
Particulars

Particular	Amount
Market Cap (₹ Crore)	10,194
Total Debt	-
Cash & Inv (₹ Crore)	1,902
EV (₹ Crore)	8,292
52 week H/L	474/ 325
Equity capital	55.6
Face value	2.0

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	40.6	40.5	40.5	40.4
FII	12.4	11.3	10.9	13.6
DII	22.4	21.9	24.1	23.3
Others	24.6	26.3	24.5	22.6

Price Chart



Key risks

- Delayed revenue and margin recovery;
- Faster than expected pipeline growth and deal conversion

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Performance highlights and outlook

- **Revenue Performance:** Birlasoft reported revenue of US\$ 145.3 mn (₹1,348.6 crore), down 3.7% QoQ/ 5.1% YoY in CC terms. For FY26, revenue stood at US\$ 597.5 mn, down 6% YoY (-6.5% YoY CC).
- **Geography performance:** Geography wise on a QoQ basis, RoW (16% of the mix) grew by 0.4% while Americas (84% of the mix) declined by 4.4%.
- **Vertical performance:** Vertical wise on a QoQ basis, the growth was led by while ER&U (18% of the mix) which grew by 1.5% while Lifesciences (19% of the mix), BFSI (24% of the mix) and Manufacturing (39% of the mix) de-grew by 12.7%, 4.4% and 0.3%.
 - **BFSI:** Client spending remains stable but is shifting from traditional services to AI-related work, without an increase in the overall spending pool.
- **Margin performance:** Reported EBITDA margin came at 18.5%, up ~30 bps QoQ making it the third consecutive quarter of margin expansion, on the back of better operating efficiencies and exchange rate tailwinds. **Steady-state profitability guidance taking into account some accelerated investments remains closer to ~15%.** Reported PAT stood at ₹176 crore, up 46.7% QoQ. For FY26 reported EBITDA margin came at 16.3%, up ~333 bps YoY while PAT came at ₹518 crore, up 0.3% YoY.
- **Outlook:** While management indicated that most client-specific challenges are now behind and expects FY27 to be better supported by leadership additions, AI-led capabilities and a 30–40% expansion in sales capacity by mid-FY27, near-term visibility remains limited amid continued demand uncertainty and weak net-new TCV wins. Nevertheless, the company continues to focus on improving revenue quality through tail-account rationalization and exiting low-margin/non-strategic contracts. Management expects margins to normalize towards the 15%+ range going ahead as it increases investments in sales, AI platforms and leadership hiring to revive growth momentum.
- **Deal pipeline:** TCV for the quarter stood at US\$208 mn, up 3% QoQ/ down 12% YoY, with new TCV wins of US\$41 mn i.e., 20% of TCV.
- **Employee addition & Attrition:** The total headcount for the quarter stood at 11,363 employees, reduction of 282 employees QoQ. LTM attrition was down ~10 bps QoQ to 13%.
- **Dividend:** The Board proposed a final dividend of ₹4 per share, bringing the total dividend for FY26 to ₹6.50 per share.

Exhibit 1: Quarter Performance

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments	FY26	FY25	YoY (%)
Revenue	1,349	1,317	2.4	1,348	0.1	Revenue was down 3.7% QoQ/ 5.1% YoY in CC terms.	5,310	5,375	-1.2
Employee expense	786	778	1.1	809	-2.9		3,171	3,201	-0.9
Gross Margin	562	539	4.4	538	4.5		2,139	2,174	-1.6
Gross margin (%)	41.7	40.9	78 bps	39.9	177 bps		40	40	-17 bps
Other expense	313	365	-14.3	293	6.8		1,273	1,477	-13.8
EBITDA	249.2	173.6	43.6	244.8	1.8		866.0	697.4	24.2
EBITDA Margin (%)	18.5	13.2	530 bps	18.2	31 bps	Reported EBITDA margin came at 18.5%, up ~30 bps QoQ making it the third consecutive quarter of margin expansion, on the back of better operating efficiencies and exchange rate tailwinds. Steady-state profitability guidance taking into account some accelerated investments remains closer to ~15%.	16.3	13.0	333 bps
Depreciation & amortisation	19	22	-10.8	20	-3.9		80.3	85.7	-6.3
EBIT	230	152	51.3	225	2.3		786	612	28.4
EBIT Margin (%)	17.0	11.5	551 bps	16.7	37 bps		15	11	342 bps
Other income (less interest)	-8	14	-152.9	-33	-77.0		5	85	-94.7
PBT	222	166	33.7	192	15.9		790	697	13.4
Tax paid	46	44	4.9	72	-35.5		272	180	51.0
PAT	176	122	44.1	120	46.7		518	517	0.3

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	632	590	-6.6	670.4	628	-6.4
Revenue	5,653	5,280	-6.6	6,033.3	5,649	-6.4
EBITDA	842	818	-2.8	905.0	881	-2.6
EBITDA Margin (%)	14.9	15.5	60 bps	15.0	15.6	60 bps
PAT	602	607	1.0	654.9	668	1.9
Diluted EPS (₹)	21.4	21.6	1.0	23.3	23.7	1.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY26	FY27E	FY28E	
Total operating Income	5,310	5,280	5,649	
Growth (%)	(1.2)	(0.6)	7.0	
COGS (employee expenses)	3,171	3,168	3,384	
Other expenses	1,273	1,294	1,384	
Total Operating Expenditure	4,444	4,462	4,768	
EBITDA	866	818	881	
Growth (%)	24.2	(5.5)	7.7	
Depreciation	80	84	90	
Other income (net)	45	85	110	
PBT	790	820	901	
Total Tax	272	212	233	
PAT	518	607	668	
Growth (%)	0.3	17.2	9.9	
Diluted EPS (₹)	18.4	21.6	23.7	
Growth (%)	(0.3)	17.2	9.9	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				₹ crore
(Year-end March)	FY26	FY27E	FY28E	
Profit before Tax	790	820	901	
Add: Depreciation	80	84	90	
Others	(1)	(85)	(110)	
Inc/(dec) in working capital	(96)	43	(62)	
Taxes paid	(293)	(212)	(233)	
CF from operating activities	481	649	586	
(Inc)/dec in Fixed Assets	(44)	(44)	(47)	
Others	(99)	107	131	
CF from investing activities	(143)	63	84	
Dividend paid & dividend tax	(181)	(113)	(113)	
Others	(52)	(22)	(21)	
CF from financing activities	(233)	(135)	(134)	
Net Cash flow	105	577	536	
Exchange difference	(6)	-	-	
Opening Cash	367	466	1,043	
Closing cash & Bank	466	1,043	1,580	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
(Year-end March)	FY26	FY27E	FY28E	
Equity Capital	56	56	56	
Reserve and Surplus	4,057	4,552	5,107	
Total Shareholders funds	4,113	4,608	5,163	
Total Debt	-	-	-	
Lease liability	111	111	111	
Provisions	128	127	136	
Other non current liabilities	3	3	3	
Total Liabilities	4,354	4,848	5,412	
Assets				
Property, plant and equipment	109	94	78	
Goodwill	565	565	565	
Intangibles	36	36	36	
Right-of-use assets	124	99	72	
Other non current assets	515	474	505	
Cash & bank balance	466	1,043	1,580	
Current Investments	1,990	1,990	1,990	
Trade receivables	1,213	1,206	1,290	
Unbilled revenue	-	-	-	
Other financial assets	27	27	29	
Other current assets	221	219	235	
Total Current Assets	3,917	4,486	5,124	
Trade payables	255	254	271	
Lease liability	30	30	30	
OCL & provisions	627	623	667	
Total Current Liabilities	912	907	968	
Net Current Assets	3,005	3,579	4,156	
Application of Funds	4,354	4,848	5,412	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios			
(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
Diluted EPS	18.4	21.6	23.7
Cash EPS	21.5	24.8	27.2
BV	148	165	185
DPS	6.5	4.0	4.0
Cash Per Share	17	37	57
Operating Ratios (%)			
EBITDA margin	16.3	15.5	15.6
PBT Margin	14.9	15.5	15.9
PAT Margin	9.8	11.5	11.8
Debtor days	83	83	83
Unbilled days	-	-	-
Creditor days	18	18	18
Return Ratios (%)			
RoE	12.6	13.2	12.9
RoCE	19.5	17.4	17.0
RoIC	41.4	40.5	43.0
Valuation Ratios (x)			
P/E	19.7	16.8	15.3
EV / EBITDA	8.9	8.7	7.5
EV / Net Sales	1.5	1.4	1.2
Market Cap / Sales	1.9	1.9	1.8
Price to Book Value	2.5	2.2	2.0
Solvency Ratios			
Debt/EBITDA	-	-	-
Debt / Equity	-	-	-
Current Ratio	1.6	1.6	1.6
Quick Ratio	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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