CK BIRLA GROUP

birlasoft

November 29, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001.

Scrip ID: BSOFT
Scrip Code: 532400

Kind Attn: The Manager,
Department of Corporate Services

National Stock Exchange of India Limited
Exchange Plaza, C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai – 400051.

Symbol: BSOFT
Series: EQ

Kind Attn: The Manager,
Listing Department

Subject: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 [“the SEBI (LODR) Regulations, 2015”] – Credit Rating

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (LODR) Regulations, 2015, this is to inform you that CARE Ratings Limited (“Credit Rating Agency”) has reaffirmed the ratings to bank facilities of Birlasoft Limited, as under –

Facilities	Amount (Rs. Crore)	Rating	Rating Action
Long-term Bank Facilities	307.00 (Reduced from 313.70)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	20.00 (Reduced from 25.00)	CARE AA; Stable /CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Short-term Bank Facilities	25.00 (Enhanced from 20.00)	CARE A1+ (A One Plus)	Reaffirmed

Press Release dated November 29, 2023, issued by the Credit Rating Agency is attached herewith. Kindly take this on record.

Thanking you.

Yours faithfully,

For **Birlasoft Limited**

Sneha Prashant Padve

Digitally signed by Sneha Prashant Padve
Date: 2023.11.29 19:39:42 +05'30'

BIRLASOFT LIMITED

Sneha Padve
Company Secretary & Compliance Officer

Birlasoft Limited
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CIN: L72200PN1990PLC059594

Birlasoft Limited

November 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	307.00 (Reduced from 313.70)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	20.00 (Reduced from 25.00)	CARE AA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	25.00 (Enhanced from 20.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation for the bank facilities of Birlasoft Limited (Birlasoft) continues to factor in the strong parentage (being part of the CK Birla group) and steady operational performance of the company in the year under review. The ratings factor in the comfortable financial risk profile of the company marked by robust debt protection metrics and its superior liquidity profile. During FY23 (refers to period from April 01 to March 31), the company reported 9% Year on Year (Y-o-Y) increase in revenue in constant currency (CC) terms, despite the discontinuation of revenues from a key client Invacare which filed bankruptcy on February 1, 2023. The operating margins declined to 10.17% due to the impact of a one-time provision made by the company against its total outstanding receivables and contract assets as on December 31, 2023, amounting to USD 19mn or ₹151 crore. However, supported by robust deal wins the business risk profile of the company remained satisfactory during the fiscal year. New deal wins were around USD 467mn, while the Total Contract Value (TCV) for the year increased by 25% YoY to USD 868mn. In Q2FY24, the company also bagged a large deal with a TCV of USD 100 mn+ over five years from a Fortune 500 corporation in North America. CARE Ratings Limited (CARE Ratings) anticipates that supported by the easing of attrition rates (15% as on September 30, 2023) coupled with operational efficiencies driven by the initiatives from the new management is likely to boost the operating margins of the company over the medium term.

The ratings, however, remain constrained by the relatively moderate operating profitability of the company compared to large domestic IT players, high geographical risk and high client concentration risk. Furthermore, the company also faces stiff competition from other prominent players in the global IT industry leading to limited pricing flexibility. Furthermore, the industry players, including Birlasoft Limited, continue to face challenges in the form of foreign currency fluctuations, talent acquisition and retention as well as headwinds in the macro-economic environment in the key operating markets (of Birlasoft Ltd i.e., the US and Europe) instilled by the heightened interest rates and prolonged decision-making cycles of customers.

Rating sensitivities: Factors likely to lead to rating actions

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 along with diversification of geographies on a sustained basis while maintaining its capital structure.

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 10% on sustained basis.
- Any major regulatory challenges impacting the operations of the company

Analytical approach: Consolidated

CARE Ratings 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The particulars of subsidiary companies which are included in consolidation are presented below:

As on March 31, 2023,

S.No.	Name of the Company	% of the shares held by Birlasoft Ltd.
1	Birlasoft Solutions Inc.	100%
2	Birlasoft Solutions France	100%
3	Birlasoft Computer Corporation	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	Enablepath LLC	100%
13	Birlasoft (UK) Limited	100%
14	Birlasoft Sdn Bhd	100%

Outlook: Stable

The stable outlook indicates CARE Ratings' expectation that Birlasoft's credit profile will continue to be supported by its established business profile, healthy order book position, debt-free status (excluding lease liabilities) and strong liquidity position despite any moderation in the growth momentum which may happen in the medium term due to macro environment.

Detailed description of the key rating drivers:

Key strengths

Strong parentage being part of the well-established and diversified CK Birla group: The CK Birla Group is a diversified US $2.8 billion conglomerate with over 25,000 employees, 46 manufacturing facilities, 21 service delivery locations having presence across five continents. It operates in six industry clusters: technology, automotive, home & building, infrastructure, healthcare and education. Birlasoft Limited derives financial flexibility and benefits from the strong management lineage of the Group. It is promoted by National Engineering Industries Ltd (with 39.20% stake in Birlasoft as on June 30, 2023; rated CARE AA-; Stable/ CARE A1+ reaffirmed as on March 29, 2023) which is a pioneer in the field of bearing manufacturing in India. It 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 Amita Birla who is the Chairman of the company and is assisted by a team of qualified professionals. The company onboarded a new CEO and Managing Director, Angan Guha w.e.f. December 2022 with over three decades of experience in the IT services industry and Kamini Shah as the Chief Financial Officer and a key managerial personnel (KMP) of the company w.e.f. April 3, 2023 with over 25 years of experience across Fortune 500 companies.

Healthy order book supporting revenue visibility: During FY23, Birlasoft registered an increase in revenue by 16% to ₹4787.28 crore from ₹4,156.74 crore in the previous year, despite the discontinuation of revenues from a key client Invacare. The company signed TCV deals of US$869mn (out of the total TCV US$401 mn was renewals and US$468mn was new business) which is an increase of 24.8% over the low base of the last fiscal year i.e., US$696mn. Furthermore, in H1FY24 TCV deal wins grew by 18% YoY basis and stood at US$417mn, this includes a large deal bagged by the company in Q2FY24 with a TCV of US$100mn+ over five years from a Fortune 500 corporation in North America. This deal will have a transition period of almost six months and revenue uptake will be visible only from April onwards. Going forward, the company's deal wins are expected to remain healthy as the company has strategized to derive growth through client-mining and cross-selling efforts. Strong deal signings and a healthy opportunity pipeline indicate a positive performance outlook in the next fiscal year. The current headwinds in the form of foreign exchange rate risk, intensifying interest servicing costs and elongated customer decision-making cycles stemming from the prevailing macro environment is expected to impact the growth in the short to medium term for the IT industry as a whole including Birlasoft.

Well-diversified service offerings aligned by industry verticals: Birlasoft Limited has service capabilities across four verticals- Manufacturing, Banking, financial services & insurance (BFSI), Energy & Utilities (E&U) and Lifesciences. Amongst the many initiatives taken by the newly formed management to improve operational synergies is restructuring of the company's operations now aligned by industry verticals. The ultimate purpose of this strategic realignment is to achieve cost savings. In the fiscal year 2023, manufacturing contributed to 47% of the revenues followed by Life Sciences (20%), BFSI (19%) and E&U (14%) while in H1FY24, growth was led by the manufacturing and BFSI verticals followed by Lifesciences (due to the discontinuation of revenues from Invacare) and E&U. In terms of service lines during the year 2023, revenue contribution from Business & Technology stood at 40.8%, Enterprise Solutions at 37.2% and Cloud & Base Service at 22%. From Q1FY24 onwards, the company has refreshed its portfolio to transform its service lines into – Data & Analytics, Digital & Cloud, ERP and Infrastructure to improve consistency and enhance quality of its service. In Q2FY24 around 34.2% of business was derived from Digital & Cloud followed by ERP (32.3%), Data & Analytics (25.6%) and remaining from Infrastructure. For the rest of the year, as the industry observes slowdown in growth due to seasonal factors and furlough-related muteness CARE Ratings expect that the company will benefit from the managerial efforts made towards increasing operational efficiencies and focus on execution.

Healthy financial risk profile marked by strong debt coverage metrics: The company continues to maintain a healthy financial risk profile with a strong capital structure marked by zero bank debt as on September 30, 2023, and superior liquidity position, reflecting robust debt protection metrics. The company only had debt in the form of lease liabilities as on March 31, 2023, amounting to ₹101.83 crore, which reduced to ₹85.69 crore as on September 30, 2023. The overall gearing improved to 0.05x as on March 31, 2023 (PY: 0.06x). During the year the Tangible Net worth moderated, however, stood strong at ₹ 1,944.42 crore as on March 31, 2023 (PY: ₹2,116.91 crore) reflecting the reduced share capital after share buyback as well as the reduction in other equity on account of premium on buyback of shares. Going forward, the financial metrics are expected to be in line with past trends and remain healthy backed by revenue growth and strong liquidity position.

Key weaknesses

Moderate scale of operations and profitability amongst industry peers: The company is a mid-sized IT services player in the Indian IT services industry. For FY23, the company's revenue stood at ₹4,787 crore, representing a moderate position in the industry. During the same period, the company's profitability was significantly affected by a one-time provision against outstanding receivables and contract assets as of December 30, 2022, resulting in a 10.7% profitability rate. However, when adjusted for this provision, PBILDT stood at 14%, down from 16% in FY22. Employee costs increased by 19% in FY23, which was in line with other IT companies as there was a huge attrition that industry was facing which has now stabilized. Furthermore wage hike was given in Q2FY24. Going forward the company is looking at cost-optimization measures and driving more pricing power from clients to improve profitability margins, while also making investments in sales headcount and sales investments.

Geographical concentration and client concentration risks: Birlasoft' geographical revenue trend remains in-line with the global IT services industry with the US contributing majority of revenues. For FY23, the Americas region contributed to almost 85% of the revenues, followed by Europe (9.5% contribution) and 6% from Rest of World. Concentration to single geography exposes the company's revenues and earnings to the structural and region-specific challenges. Client contribution to revenue in FY23 was nearly at 32.8% from the top five customers, 48.7% from the top 10 customers and 63.9% from the top 20 customers, implying moderate to high customer concentration risks. This stood at 29.9% from the Top five customers, 45.7% from the top 10 customers and 61.3% from the top 20 customers in FY22. This is also steered by the company's strategy to focus on select customer groups and drive future growth through existing set of top multi-service accounts via cross-selling. Over the years the company has also been rationalizing non-profitable accounts with less potential of growth. As on September 30, 2023, total number of clients were 278 (PY:301 YoY basis). The risk of higher client concentration, however, to an extent is mitigated by the company's long-standing and strategic association with its clients.

Industry-specific challenges like intense competition, forex risk, employee attrition rate and exposure to policies in key operating markets: The presence in a highly competitive industry leads to factors such as pricing pressure, deal re-negotiations, deferrals, retention of talent, etc, which are expected to have a direct bearing on the company's revenue growth and profitability. As most of the earnings of the company are in foreign currency, exchange rate movement can impact the profitability of the company. In Q2FY24, around 87.1% of its revenue was in USD currency while a significant portion of its corresponding costs are in Indian Rupee. Fluctuations in major currencies due to unstable economic conditions impact revenue and profits of the IT industry. This trend is expected to continue, and future volatility is expected due to the conflict in eastern Europe region and recessionary trends in Americas and other geographies. As easing of attrition has been observed for a Last Twelve Month (LTM) basis, which stood at 22.1% at the end of FY23, a noticeable improvement from 29.4% registered at the end of the preceding financial year. Going ahead with low attrition rate at 15% during Q2FY24 (from 18.8% in previous quarter and 27.4% a year ago) may help in partly offsetting the impact on margins from recessionary pressures.

Liquidity: Strong

The liquidity profile of the company is strong marked by total liquidity of ₹1052.92 crore (including total cash and bank balance of ₹545 crore and current investments of ₹300.43 crore) as on March 31, 2023, against nil bank debt repayment obligations. Furthermore, the company has high current ratio at 3.47x as on March 31, 2023 (PY: 3.67x) on account of healthy cash and bank balances and does not have any major capex plans which also aided the liquidity profile of the company. The average fund-based working capital utilisation of the company remained nil in the past 12 months ending June 2023.

Assumptions/Covenants
Not Applicable

Environment, social, and governance (ESG) risks

Environment: Birlasoft is a service-oriented company, hence there is no direct exposure of the company to any significant environmental risk. The company is however actively working on reducing its carbon footprint as it is moving to cloud which means cutting down on physical products and hardware. Therefore, there is a reduction in paper waste and computer-emitted emissions. The company has also replaced HVAC system with more efficient VRF system as well as CFL with LED lighting to improve energy efficiency.

Social: The company has conducted awareness programs on an ongoing basis, maintained adequate health and safety management systems and have undertaken several measures aimed at promoting employee well-being. During FY23, LTM attrition rate stood at 22.1% as on March 31, 2023 which improved industry-wide and stood at 15% as on September 30, 2023.

Governance: The company has robust governance architecture that upholds responsible and ethical conduct throughout the company. During the year, six meetings of the Board were held on May 23, 2022, August 3, 2022, October 21, 2022, November 4, 2022, February 2, 2023, and March 30, 2023. The maximum time-gap between any two consecutive meetings was within the period prescribed under the Act and SEBI (LODR) Regulations, 2015. The company has also retained its ISO 27001:2013 Information Security Management System and ISO 27701:2019 Privacy Information Management System certification. The NIST Cyber Security Framework has also been leveraged and is validated by third party vendors regularly.

Applicable criteria
Policy on default recognition
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Consolidation
Financial ratios – Non-financial Sector
Short term instruments
Liquidity Analysis of Non-Financial Sector Entities
Service sector companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT-enabled services

Birlasoft Limited, is a part of the C.K. Birla group and was incorporated in 1995. Birlasoft is chaired by Amita Birla, wife of CK Birla, who is also one of the Directors in the company. It is promoted by National Engineering Industries Ltd (with 39.20% stake in Birlasoft as on September 30, 2023; rated CARE AA-; Stable/ CARE A1+ reaffirmed as on March 29, 2023) which is a pioneer in the field of bearing manufacturing in India, is engaged in manufacturing of various types of ball & roller bearings with a total installed capacity of 193 million pieces p.a. and axle boxes with a total installed capacity of 50,000 pieces p.a. at its manufacturing facilities located in Jaipur (Rajasthan), Newai (Rajasthan), Manesar (Haryana) and Savli (Gujarat). The company is also involved in the manufacturing of rubber moulded and extruded goods at its manufacturing facility in Kolkata.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	4156.74	4787.28	2602.27
PBILDT	666.51	514.07	429.89
PAT	320.83	331.58	282.62
Overall gearing (times)	0.06	0.05	-
Interest coverage (times)	51.21	27.65	43.38

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	277.00	CARE AA; Stable
Fund-based - LT-Working capital limits		-	-	-	30.00	CARE AA; Stable
Fund-based - ST-Bank overdraft		-	-	-	25.00	CARE A1+
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	20.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	277.00	CARE AA; Stable	-	1)CARE AA; Stable (20-Sep-22)	1)CARE AA; Stable (05-Oct-21)	1)CARE AA-; Stable (05-Nov-20)
2	Fund-based - LT-Working capital limits	LT	30.00	CARE AA; Stable	-	1)CARE AA; Stable (20-Sep-22)	1)CARE AA; Stable (05-Oct-21)	1)CARE AA-; Stable (05-Nov-20)
3	Fund-based - ST-Bank overdraft	ST	25.00	CARE A1+	-	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (05-Oct-21)	-
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	20.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (20-Sep-22)	1)CARE AA; Stable / CARE A1+ (05-Oct-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Working capital limits	Simple
3	Fund-based - ST-Bank overdraft	Simple
4	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in