CK BIRLA GROUP

birlasoft

September 15, 2022

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	313.70 (Enhanced from 243.70)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	25.00	CARE AA; Stable /CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Short-term Bank Facilities	20.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	358.70 (Rupees Three Hundred Fifty-Eight Crore and Seventy Lakhs Only)		

Press Release dated September 15, 2022, 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: 2022.09.15 18:46:41 +05'30'

BIRLASOFT LIMITED

Sneha Padve
Company Secretary & Compliance Officer

Birlasoft Limited

September 15, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank Facilities	313.70 (Enhanced from 243.70)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	25.00	CARE AA; Stable / CARE A1+ (Double A ; Outlook: Stable/ A One Plus)	Reaffirmed
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Total bank facilities	**358.70 (₹ Three hundred fifty-eight crore and seventy lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating reaffirmation for the bank facilities of Birlasoft Limited (Birlasoft) factors in the steady business risk profile and performance in FY22 (refers to period from April 01 to March 31), Birlasoft posted around 17% of YoY core revenue growth in constant currency terms in FY22, supported by accelerated demand for digital services (cloud and digital transformation) and business & technology transformation. The company reported sizeable order booking of TCV worth US$696 million in FY2022 maintaining a healthy mix of large and mid-sized deals supported by multiple wins across verticals. Coupled with growth prospects of digital and cloud infrastructure services, sharpened focus to build key business verticals through a micro-vertical strategy and a focused effort to scale up contribution from top-tier clients, provides revenue visibility for Birlasoft in the medium term. The ratings also derive comfort from the healthy financial risk profile of the company marked by strong debt protection metrics and strong liquidity position. The margins are likely to witness continued pressure in the near team owing to wage cost inflation and normalisation of operational overheads. However, attrition levels are expected to start tapering from the end of the current fiscal, as record net employee addition at the industry level in FY2022 is likely to address the demand–supply gaps to a large extent. This coupled with better realisation and operational efficiencies is likely to support the profit margins over the medium term for Birlasoft.

The ratings continue to derive strength from the strong parentage being part of the C.K Birla group with long track record in IT services business, diversified service offerings, reputed client base and alliances entered by the company to drive business growth.

The ratings remain constrained by the relatively moderate scale of operations and concentration in the US market compared to large domestic IT players. While increasing the scale and the size of its operations, a leveraged funding structure for future acquisitions could materially impact the company's financial risk profile. The company also faces stiff competition from other prominent players in the global IT services industry, leading to limited pricing flexibility. Additionally, industry players, including Birlasoft, continue to face challenges in the form of foreign currency fluctuations, talent acquisition and retention. The demand for IT services remains exposed to macro-economic uncertainties in Birlasoft's key operating markets of the US and Europe.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- 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.

Negative factors – Factors that could lead to negative rating action/downgrade:

- 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.

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

- Any major regulatory challenges impacting the operations of the company.

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Diversified service offerings and stable business risk profile

The company's revenues are diversified across various service offerings. Around 41.36% of its business is derived from ERP-centric services (Integrated Enterprise Solutions and SAP), around 21.48% of business from high-growth digital services like Cloud, CRM, BI & Data Analytics (Digital transformation) and remaining business is derived from Custom application services and other horizontals in IT-related services. Furthermore, its clientele is distributed across the Manufacturing, Lifesciences, BFSI and Energy & utilities, providing vertical diversification. During FY22, the company derived nearly 45% of revenue from Manufacturing vertical, which includes diverse manufacturing industries such as auto, hi-tech, consumer packaging, etc, followed by Lifesciences vertical (22.8% contribution), BFSI (17.6%) and Energy & utilities vertical (14.9%). As on June 30, 2022, the company is having 300 active clients including reputed companies with whom the company has long track of established relationships.

During FY22, the company's total income increased 17.40% y-o-y to ₹4,189 crore from ₹3,568 crore in FY21, despite COVID-19 impact in H1FY22. The growth was driven by strong deal wins and improved demand environment for IT services industry. During FY22, the company won deals of around US$696 million, with 63.7% coming from new business and 36.3% from renewals. The operating profit margin improved to 16.69% in FY22 (PY: 15.19%), driven by improvement in revenue, improved utilisation of employees and optimisation of general and administration expenses.

During Q1FY23 (refers to the period April 01 to June 30), Birlasoft witnessed 21% y-o-y growth in its total income to ₹1,169.88 crore as compared with ₹966.79 crore in Q1FY22. However, PBILDT margin declined to 15.84% (Q1FY22: 17.85 due to increased hiring and recruitment costs. For rest of the year, with expected wage hikes and return of travel-related expenditure, the operating margin is expected to moderate marginally. With attrition rates going up for the industry including Birlasoft, subcontractor payout also increased. While in the last two quarters of FY22 there has been a marginal reduction in subcontractors because Birlaosft started to replace them with regular employees, they still have to accelerate a bit here and employ more regular resources deployed against subcontractors both onsite and offshore, primarily onsite. In Q3FY22 subcontract as a percentage of Revenue was 17.5% which reduced to 15.8% by Q4FY22 but these have been at the levels of around 11-12% in FY21.

Strategic alliances

Birlasoft has entered into strategic alliances with various business partners to widen the gamut of its service offerings. The company's key alliances include Microsoft, Oracle, JD Edwards, SAP, Infor, AWS, Google, Salesforce, etc. 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. The company continues to grow its relationships and partnerships with various platform providers, which aids in winning long-term transformational deals.

Healthy order book provides revenue visibility

During FY22, the company had won deals of US$696 million, of which US$252 million was renewals and US$444 million was new business. Furthermore, with effective client-mining, the company was able to grow its revenue from Top-20 customers by 20.4% y-o-y. Going forward, the company's deal wins are expected to remain healthy with dedicated strategies from the company to drive growth in the medium term. The current headwinds in the form of geopolitical risks, inflation, macroeconomic volatility and supply chain disruptions, are expected to impact the growth in FY23 for the IT industry as a whole including Birlasoft.

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 bank debt as on June 30, 2022, and comfortable liquidity position, reflecting strong debt protection metrics. The company only had debt in the form of lease liabilities of ₹123 crore as on March 31, 2022. The overall gearing improved to 0.06x as on March 31, 2022 (PY: 0.0.7x). Debt coverage metrics improved y-o-y, as the interest coverage ratio stood at 53.71x in FY21 (PY: 41.55x) and Total Debt/PBILDT at 0.18x as on March 31, 2022 (PY: 0.24x). Going forward, the financial metrics are expected to be in line with past trends and remain healthy backed by revenue growth and healthy liquidity position. There was a recent buy back in

August 2022 which was concluded by Birlasoft through the tender route and the promoters did not participate in the same. Total amount was close to ₹390 crore and buyback was done at ₹500 per share.

Part of established group imparts financial flexibility

Birlasoft is a part of the CK Birla group, which has 40.32% stake in the company, as on June 30, 2022. The C.K. Birla group is a leading industrial group with major presence in diverse range of businesses such as automobiles, auto ancillary products, engineering products, chemical, cement, paper, fan and electrical items. It derives financial flexibility and benefits from the strong management lineage of the Group. Birlasoft is promoted by National Engineering Industries Ltd (with 38.81% stake in Birlasoft as on June 30, 2021) which is a pioneer in the field of bearing manufacturing in India, is engaged in the manufacturing of various types of ball and roller bearings. The company is led by Mrs Amita Birla who is the Chairman of the company and is assisted by a team of qualified professionals. The company is headed by Dharmander Kapoor, Managing Director & CEO, from June 01, 2019 onwards. He holds a Master's 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.

Industry Outlook

The International Monetary Fund (IMF), in its April 2022 World Economic Outlook, has projected global growth (in terms of calendar years) to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. The ongoing Ukraine- Russia war would slow the global recovery. Furthermore, the impact of the war would affect commodities, trade, and financial linkages, leading to high inflation, projected to be 5.7% in advanced economies and 8.7% in emerging and developing economies in 2022. The invasion has contributed to economic fragmentation as many countries have severed commercial ties with Russia and risk derailing the post-pandemic recovery.

India is the world's largest outsourcing destination with largest qualified talent pool. The IT industry accounts for nearly 8% of the country's GDP, contributes to more than half of services exports and 50% of the foreign direct investment. The pandemic that began over two years ago hurled many organisations into the future, rapidly accelerating their digital transformation initiatives. Furthermore, it was supported by the change in environments as seamless remote working became commonplace. That said, the headwinds in the form of geopolitical risks, high inflation, macroeconomic volatility, supply chain disruptions, and the after-effects of the pandemic will impact the growth in FY23. However, the solid underlying demand environment is likely to have a limited impact on IT services. Global organizations increasingly need digital information, technology, and IT transformation to grow and differentiate the business apart from running the day-today operations efficiently.

Key rating weaknesses

Moderate scale of operations and stiff competition from IT majors

The company is a mid-sized player in the Indian IT services industry. For FY22, the company's revenue stood at ₹4,189 crore, representing a moderate position in the industry. 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.

Furthermore, the company derives its revenues primarily from exports (of services) and exposes it to the economic conditions and regulations of the host countries. Any protectionist measures such as change in immigration laws or new local regulations could create business challenges for the IT companies including Birlasoft.

Geographical concentration and customer concentration risks

Birlasoft' geographical revenue trend remains in-line with the global IT services industry with the US contributing majority of revenues. For FY22, the Americas region contributed 82% of the revenues, followed by Europe (11% contribution) and 7% from Rest of World. Concentration to single geography exposes the company's revenues and earnings to the structural and region-specific challenges. However, to mitigate the risks, the company has been focussing to diversify the clientele in different geographies apart from the US in the recent years.

For FY22, the company's top-10 customers contributed nearly 45.7% of its revenue indicating moderate customer concentration. However, the company's established relationships with its top customers mitigates this risk to an extent.

Industry-specific challenges like intense competition, forex risk, high employee attrition and exposure to policies in key operating markets
Given the intense competition in the industry, Birlasoft's profit margins are susceptible to pricing pressures and wage inflation. Furthermore, much of the revenues and margins are exposed to forex risks, although the company's hedging mechanisms mitigate the same to an extent. Being in a highly labour-intensive business, the availability and retention of a skilled workforce are the key challenges. Birlasoft's margin has been impacted in FY22, owing to increased cost of delivery because of considerable wage cost inflation. The LTM attrition as on March 31, 2022 was 29.4% and as June 30, 2022 the same stood at 27.9%. However, attrition levels are expected to start tapering from the end of the current fiscal, as record net employee addition at the industry level in FY22 is likely to address the demand-supply gaps to a large extent. Birlasoft is also exposed to macroeconomic uncertainties and any adverse regulatory/ legislative changes in its key operating markets of USA, Europe and South Africa.

Liquidity: Strong

Liquidity is marked by strong cash accruals in the range of Rs 500 crore against nil bank debt repayment obligations. Cash and liquid investments as on June 30, 2022 stood at ₹1,204.1 crore, of which ₹809.67 crore is invested in India and balance is outside India. Also, the average fund-based working capital utilisation for the last 12-month period ended June 2022 remained nil. There was a recent buy back in August 2022 which was concluded by Birlasoft through the tender route. Total amount was close to ₹390 crore and buyback was done at ₹500 per share.

Furthermore, CARE Ratings expects the company to continue to scout for investment/acquisition opportunities to support its inorganic growth initiatives. The impact, if any, of the same on Birlasoft's credit and liquidity profile will depend on the ticket size of these investments/acquisitions and their operational and financial synergies.

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. The particulars of subsidiary companies which are included in consolidation are presented in the Annexures.

Applicable criteria

Policy on default recognition

Consolidation

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Service Sector Companies

About the company

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. Birlasoft is a global provider of IT solutions, services and consulting with operations across globally. Birlasoft provides 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. As on June 30, 2022, the company's headcount stood at 12,565.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	3,568	4,189	1,170

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	3,568	4,189	1,170
PBILDT	542	699	185
PAT	321	464	121
Overall gearing (times)	0.07	0.06	NA
Interest coverage (times)	41.55	53.71	57

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	283.70	CARE AA; Stable
Fund-based - LT-Working capital limits		-	-	-	30.00	CARE AA; Stable
Fund-based - ST-Bank overdraft		-	-	-	20.00	CARE A1+
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	25.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	283.70	CARE AA; Stable	-	1)CARE AA; Stable (05-Oct-21)	1)CARE AA-; Stable (05-Nov-20)	1)CARE AA-; Stable (07-Jan-20) 2)CARE A+ (CWD) (04-Apr-19)

2	Fund-based - LT-Working capital Limits	LT	30.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Oct-21)	1)CARE AA-; Stable (05-Nov-20)	1)CARE AA-; Stable (07-Jan-20) 2)CARE A+ (CWD) (04-Apr-19)
3	Fund-based - ST-Bank overdraft	ST	20.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	-	-
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	25.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Oct-21)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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: List of subsidiaries of Birlasoft

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

Sr. No.	Name of the Company	% Of the shares held by Birlasoft Limited as on March 31st, 2022
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 Ltd	100%
6	Birlasoft Consulting Inc., USA	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 Sdn Bhd	100%

Annexure-6: Bank lender details for this company

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

Note on 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.

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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