

CMP: INR 4,640

Rating: Accumulate

Target Price: INR 5,284

Stock Info

BSE	533179
NSE	COFORGE
Bloomberg	COFORGE.IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	611
Mkt Cap (INR mn)	294,105
52w H/L (INR)	5055/3210
Avg Yearly Vol (in 000')	384

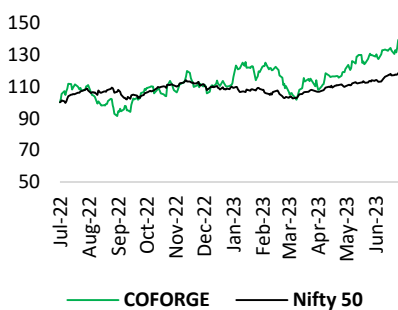
Shareholding Pattern %

(As on June, 2023)

Promoters	26.63
FII	24.78
DII	37.2
Public & Others	11.39

	1m	3m	12m
Coforge	4.13	25.7	32.43
Nifty 50	5.95	13.34	20.32

Coforge Vs Nifty 50



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Coforge reported revenue growth of 2.8% cc QoQ versus our estimate of 3.0%. Guidance, Company reiterated revenue growth guidance of 13%-16% in constant currency terms for FY24. EBITDA guidance of ~18.3%. Order executable grew by 19.1%. On YoY basis growth of 18%/2.7% QoQ in organic cc terms. Revenue for the quarter was INR 22,210 Mn & USD 271.8 Mn, Up 21.4% YoY in INR terms and 2.8% YoY in US\$ terms QoQ and Up 24.5% in INR terms and 13.8% in US\$ terms YoY. EBIT margin came in at 11.56% lower than our expected 13.1%; Contraction 392bps QoQ. Q1FY24's decrease in adjusted EBITDA was due to four main factors: Global salary hikes impacting the quarter from day one, a conscious decision to forgo annual salary hikes, and the disposal of annual variable pay for eligible employees in Q1 without any reductions. The impact of hedge loss in the quarter would be ~60 bps. Utilization rate moderated 50bps QoQ to 81.0% vs 81.5% last quarter.

Expecting an Uptick: Mortgage Business Nears the Bottom in Q2FY24: BFS vertical, there are concerns about banks facing difficulties in making short to medium-term decisions due to uncertainties in the macroeconomic environment. Although some macro issues appear to be resolving. Notably, segments like retail and commercial outside mortgages are showing a slight improvement. Asset Wealth Management, on the other hand, remains resilient.

Strong order book: The BFS vertical grew 4.5% QoQ in CC terms. The insurance vertical grew 5% QoQ in cc terms. The travel vertical grew 2.54% QoQ in CC terms. And the other verticals together grew 6.4%, QoQ in CC terms. Clearly broad-based growth. BFS grew 47% (BFS 47% and is expected to be lower than FY23 with 15% yearly growth rate for the coming year. Travel grew 21.5%, insurance declined 3.7%, and the other segment grew 23.1% in CC terms.

The commentary displayed a sense of assurance and seemed unconcerned about macro-level economic conditions: We believe that Coforge will maintain its growth trajectory in FY24, especially in the areas of Low code-no code, Integration, and Data analytics that continue to experience robust demand. Despite a downturn in macroeconomic factors, the management is confident in its capacity to execute effectively and make bold investments that will further drive growth.

Valuations and outlook

The guidance for FY24 indicates that the company expects its annual revenue growth to be between 13% and 16% in constant currency terms. Additionally, they aim to maintain an Adjusted EBITDA Margin similar to the figure achieved in FY23, which was 18% or higher. The company's strong performance and increased success in securing deals contribute to its solid position. Coforge is projected to sustain robust growth not only in FY24 but also in the future. Despite being impressed with Coforge and considering it one of the best managed IT Tier-II companies, there is a concern about the negative impact of frequent promoter selling (27% stake) on the stock price. However, the company is planning to counter this by investing in sales expansion, which is expected to yield better performance in the upcoming periods. **We value, Coforge at a PE of 26x its FY25E EPS of 203, which yields a target price of INR 5,284 per share (Earlier target price of INR 5,127 per share). We maintain our Accumulate rating on the stock.**

Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	271.8	264.4	238.7	2.8%	13.9%
Gross Revenue	22,210	21,700	18,294	2.4%	21.4%
Direct Cost	15,401	14,306	12,739	7.7%	20.9%
Gross Profit	6,809	7,394	5,555.0	-7.9%	22.6%
GM %	30.7%	34.1%	30.4%	-342bps	29bps
Selling / General And Administration	3,264	3,150	2,543	3.6%	28.4%
SG&A to Revenue %	14.7%	14.5%	13.9%	18bps	80bps
Adj. EBITDA	3,545	4,244	3,012	-16.5%	19.6%
Adj. EBITDA margin %	16.0%	19.6%	16.5%	-360bps	-50bps
	-	-	-	-	-
Cost of ESOPS	216	168	94	28.6%	129.8%
EBITDA	3,329	4,076	2,918	-18.3%	22.1%
EBITDA margin %	14.99%	18.8%	16.0%	-379bps	-96bps
Depreciation and Amortization	757	717	630	5.6%	20.2%
Other Income (net)	-160	-487	-76		
Profit Before Tax	2,412	2,872	2,212	-16.0%	9.0%
PBT % (Before exceptional items)	10.9%	13.2%	12.1%	-238bps	-123bps
Exceptional items*	-	523	-		
\$1 Bn Milestone celebration cost	165	803	-		
Profit Before Tax	2,247	1,546	2,212	45.3%	1.6%
PBT %	10.1%	7.1%	0.0%	299bps	1012bps
Provision for Tax	485	379	493.0	28.0%	-1.6%
Minority Interest	104	19	222	447.4%	-53.2%
PAT	1,658	1,148	1,497	44.4%	10.8%
PAT margin %	7.5%	5.3%	8.2%	217bps	-72bps
EPS (INR)	27.0	18.8	25	43.6%	9.8%

Q1FY24 Conference call Highlights:

FY24 annual revenue guidance: 13% to 16% in cc terms and Adjusted EBITDA Margin similar to FY23 figure at 18% plus.

- **EBIT margin** came in at 11.56% lower than our expectation of 13.1%; Contraction 392bps QoQ.
- Q1FY24's decrease in adjusted EBITDA due to four main factors: Global salary hikes impacting the quarter from day one, a conscious decision to forgo annual salary hikes, and the disposal of annual variable pay for eligible employees in Q1 without any reductions. The impact of hedge loss in the quarter would be ~60 bps.
- **Order Intake Strong:** Fresh order intake was highest at USD 531m. Two \$ 50M+ deals signed in the BFS vertical. Total order book executable over the next 12 months at US\$ 897 mn. 6 new clients were added during the quarter. In terms of geographic regions Americas contributed \$155 mn. EMEA at \$346 million and the ROW \$30 mn to the order, signed a large deal of \$300 million TCV with an existing
- **Customer:** Despite an uncertain macro environment, top five and top 10 customers experienced sequential growth of 12.2% and 9% respectively, with the top five clients contributing 25.1% and the top 10 contributing 37.7% of revenues, showcasing resilience and ability to expand within key accounts.
- **LTM Attrition:** The company fulfilled all their commitments by granting annual salary increments, onboarding campus and lateral hires, distributing 21,500 iPads, paying out full annual bonuses for FY23, and achieving reduced attrition of 13.3%, down 80bps q/q.
- **Generative AI:** Coforge is accelerating its RPI strategy to become an AI-first organization, embedding AI into all service offerings, and leveraging partnerships with leading US universities for AI research and training, driving exponential value for customers. The company is co-innovating developing and monetizing solutions with the customers
- **Offshore mix (IT)** improved by 30bps to 51.0%. In Q1 FY24, offshore revenue increased, accounting for 51% of total revenues, indicating a continued shift towards higher offshore revenues that provided significant margin support over the past two years.
- **Dividend:** The Board has recommended an interim dividend of INR 19 per share, and the record date for this payout will be August 3, 2023

Exhibit 3: Business Matrix

Business Mix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Vertical Mix					
Insurance	23.1%	23.2%	22.1%	22.2%	22.6%
BFS	29.5%	31.7%	31.1%	31.0%	31.1%
Travel and Transport	19.4%	19.3%	19.3%	18.8%	18.5%
Others	28.0%	25.8%	27.4%	28.0%	27.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Service Line Mix					
Product Engineering	10.5%	10.5%	9.9%	9.5%	9.4%
Intelligent Automation	12.6%	12.6%	11.8%	11.1%	11.5%
Data and Integration	23.3%	23.1%	23.9%	23.6%	24.0%
Cloud and Infrastructure Management (CIMS)	18.2%	17.5%	18.6%	19.0%	20.0%
Application Development and Maintenance (ADM)	24.2%	25.8%	26.7%	27.7%	25.6%
Business Process Management (BPM)	11.1%	10.4%	9.1%	9.0%	9.5%
Geography Mix					
Americas	51.3%	51.3%	49.2%	48.3%	49.7%
EMEA	36.9%	38.5%	40.3%	39.6%	38.6%
ROW	11.9%	10.2%	10.5%	12.1%	11.7%
Total	100%	100%	100%	100%	100%
Billable People					
Onsite	52%	50%	50%	49%	49%
Offshore	48%	50%	51%	51%	51%
Total	100%	100%	100%	100%	100%
Client Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
New Clients Added					
Americas	6	5	5	6	4
EMEA	4	4	2	2	1
Rest of World	2	2	4	2	1
Total	12	11	11	10	6
Repeat Business %	96%	94%	93%	92%	96%
Client Concentration (% of Revenue)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Top 5	23%	23%	24%	23%	25%
Top 10	36%	36%	36%	36%	38%
No. of Clients (by Client Engagement Size)					
Above USD 10 Mn	19	19	21	21	21
USD 5-10 Mn	24	26	23	23	24
USD 1-5 Mn	98	97	98	101	102
People Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
By Role					
Billable Personnel					
IT	15,448	15,912	15,721	16,182	16,827
BPS	6,046	5,780	5,432	5,633	5,935
Total Billable	21,494	21,692	21,153	21,815	22,762
Sales and Marketing	285	291	317	350	363
Others	963	1,008	1,035	1,059	1,099
Total	22,742	22,991	22,505	23,224	24,224

Source: Arianth Research, Company Filings

Comment on the Performance:

- BFS vertical grew 3.1% QoQ in CC terms and contributed 31.1% to the revenue mix, Insurance (up 4.3% in CC) contributed 22.6%, transportation (up 1.3% QoQ in cc) contributed 18.5% to the total revenue and others (up 1.8% in cc) contributed 27.8% to the total revenue.
- America grew by 5.6% QoQ in CC terms the EMEA region remained flat and the rest of the world grew by 1% QoQ in CC terms they saw strong growth across top customers in Q1FY24.
- Headcount: Increased by 4.3% q/q, a net addition of 1,000 people in Q1FY24.
- Utilization rate moderated 50bps QoQ to 81.0% vs 81.5% last quarter.

Exhibit 4: Revenue trend over quarters

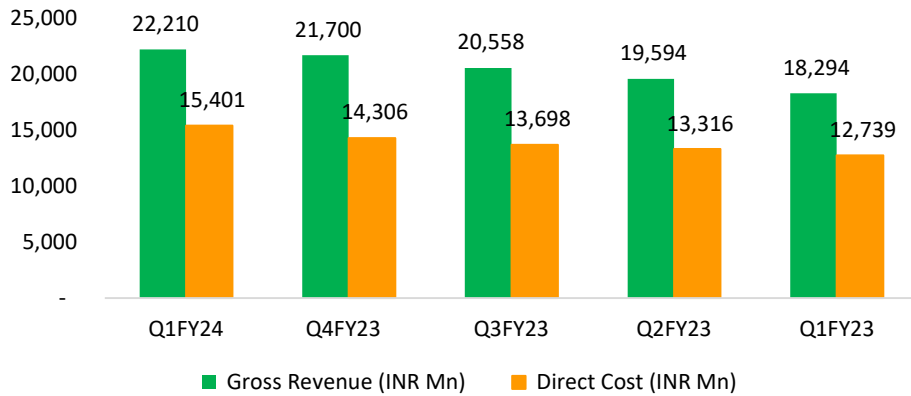


Exhibit 5: Profit impacted led by impact in EBITDA

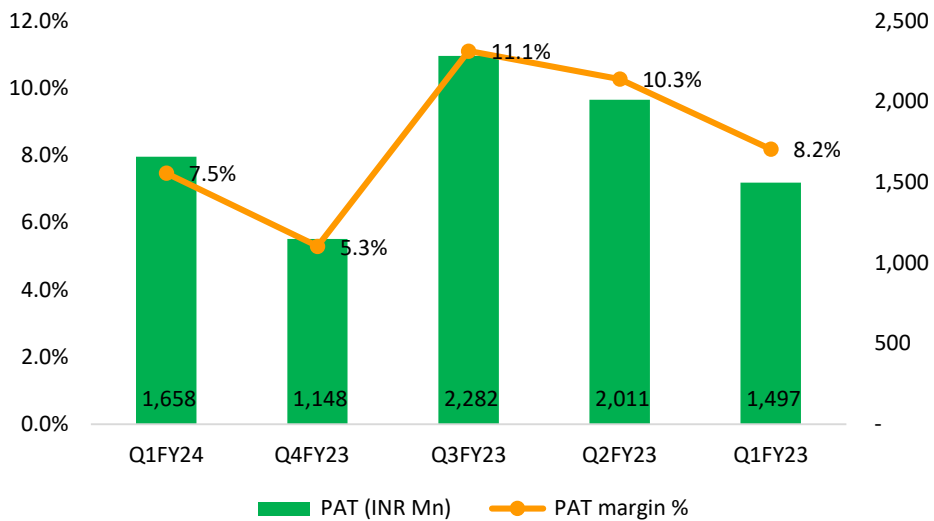
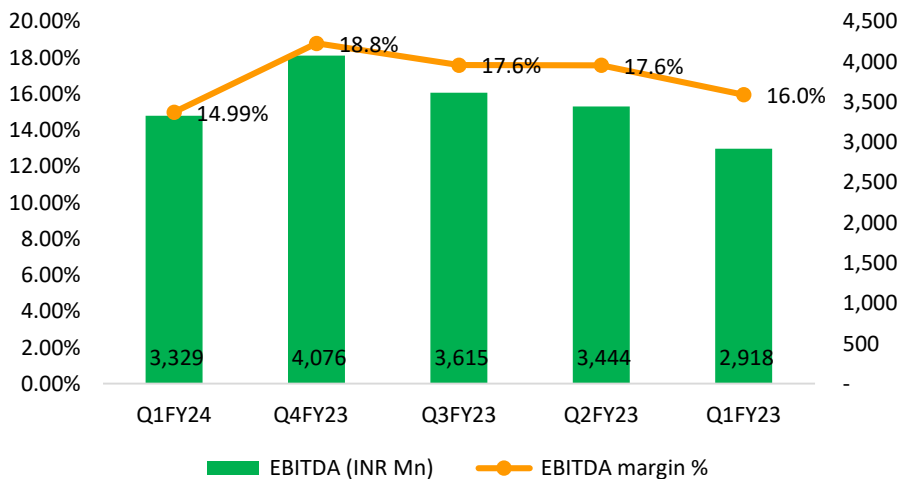


Exhibit 6: Margin impacted led by salary hike impact



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
Revenue (Mn USD)	1002	1158	1291	1472
Change (%)	15.6%	15.6%	11.5%	14.0%
Revenues	80,146	90,300	96,852	110,387
Change (%)	24.6%	12.7%	7.3%	14.0%
Operating Costs	551	3,522	3,777	4,305
Gross Profit	79,595	86,778	93,075	106,082
Employee Costs	48,280	54,180	58,111	66,232
Other Expenses	18,508	17,699	18,305	20,697
Total Expenses	67,339	75,400	80,194	91,235
EBITDA	12,807	14,899	16,659	19,152
EBITDA Margin (%)	15.98%	16.50%	17.20%	17.35%
Depreciation	2,585	2,824	3,528	3,636
EBIT	10,222	12,075	13,131	15,516
EBIT Margin	12.75%	13.37%	13.56%	14.06%
Interest	806	814	822	830
PBT	10,035	12,002	13,277	15,790
Extra-ordinary	523.00	-	-	-
PBT after ext-ord.	9,512	12,002	13,277	15,790
Tax	2,061	2,640	2,921	3,474
Rate (%)	22.0%	22.0%	22.0%	22.0%
PAT	7,451	9,361	10,356	12,316
MI & Associates	513	-	-	-
Consolidated PAT	6,938	9,361	10,356	12,316
Change (%)	12.8%	25.5%	10.6%	18.9%

Cash Flow Statement (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
PBT	9,512	12,002	13,277	15,790
Depreciation	2,585	2,824	3,528	3,636
Interest & others	662	74	(146)	(273)
Cash flow before WC changes	12,759	14,899	16,659	19,152
(Inc)/dec in working capital	2,777	52	(2,515)	(74)
Operating CF after WC changes	15,536	14,952	14,144	19,078
Less: Taxes	(2,061)	(2,640)	(2,921)	(3,474)
Operating Cash Flow	13,475	12,311	11,223	15,604
(Inc)/dec in F.A + CWIP	(13,704)	10,967	(697)	(696)
Cash Flow from Investing	(13,704)	10,967	(697)	(696)
Free Cash Flow (FCF)	12,776	11,613	10,526	14,908
Loan raised/(repaid)	17	143	149	155
Equity raised	2	-	-	-
Interest & others	2,612	(10,860)	(2,678)	(3,255)
Dividend	(1,151)	(909)	(909)	(909)
Cash Flow from Financing Activities	1,480	(11,626)	(3,438)	(4,008)
Net inc / (dec) in cash	1,251	11,652	7,088	10,900
Opening balance of cash	4,536	5,787	17,439	24,527
Closing balance of cash	5,787	17,439	24,527	35,426

Balance Sheet (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Share Capital	611	611	611	611
Reserves & Surplus	30,214	38,666	48,113	59,520
Net Worth	30,825	39,277	48,724	60,131
Loan Funds				
	3,382	3,525	3,673	3,828
MI, Deferred Tax & other Liabilities	1,918	1,918	1,918	1,918
Capital Employed	36,125	44,720	54,316	65,878
Application of Funds				
Gross Block	21,366	22,064	22,761	23,457
Net Block	18,781	19,240	19,233	19,821
CWIP	46	46	46	46
Other Non-current Assets	1,364	1,364	1,364	1,364
Deferred Tax Assets	3,757	3,757	3,757	3,757
Net Fixed Assets	23,948	24,407	24,400	24,988
Investments				
	-	-	-	-
Debtors	17,903	17,903	21,759	24,799
Inventories	-	-	-	-
Cash & Bank Balance	5,787	17,439	24,527	35,427
Loans & Advances & other CA	4,858	4,858	4,858	4,858
Total Current Assets	28,548	40,200	51,144	65,084
Current Liabilities	19,835	19,887	21,228	24,194
Provisions	-	-	-	-
Net Current Assets	8,713	20,313	29,916	40,890
Total Assets	36,125	44,720	54,316	65,878

Key Ratios				
Year End-March	FY23	FY24E	FY25E	FY26E
Per share (INR)				
EPS	111.5	154.5	170.9	203.2
CEPS	157.1	201.1	229.1	263.2
BVPS	508.7	648.1	804.0	992.3
DPS	19.0	15.0	15.0	15.0
Div. Payout (%)	0.2	0.1	0.1	0.1
P/E	41.6	30.0	27.2	22.8
P/CEPS	29.5	23.1	20.3	17.6
P/BV	9.1	7.2	5.8	4.7
EV/EBITDA	5.4	3.9	3.1	2.1
Dividend Yield (%)	0.4%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	16.0%	16.5%	17.2%	17.4%
EBIT Margin	12.8%	13.4%	13.6%	14.1%
PAT Margin	9.3%	10.4%	10.7%	11.2%
ROE	24.2%	23.8%	21.3%	20.5%
ROCE	28.3%	27.0%	24.2%	23.6%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	-0.1	-0.4	-0.4	-0.5
Turnover Ratios				
Asset Turnover (x)	2.2	2.0	1.8	1.7
Receivable Days	82	82	82	82
Payable days	90	80	80	80

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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