

CMP: INR 5,109

Rating: Neutral

Target Price: INR 5,260

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')	481

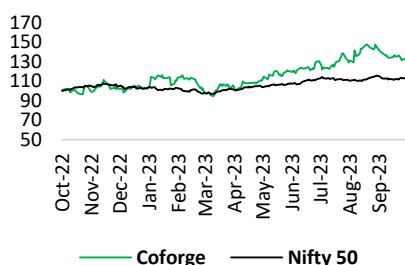
Shareholding Pattern %

(As on June, 2023)

Promoters	26.63
FII	24.78
DII	37.2
Public & Others	11.39

	1m	3m	12m
Coforge	-7.8	4.7	34.0
Nifty 50	2.53	-1.05	12.0

Coforge Vs Nifty 50



Coforge reported revenue growth of 2.3% cc q/q/14.1% y/y. Guidance, Company maintained revenue growth guidance (13%-16%) in cc terms for FY24. Signs three large deals in Q2FY24. Revenue for the quarter was INR 22,762 Mn (Estimated INR 22,950 Mn) & USD 278.1 Mn (USD 275Mn), Up 16.2% YoY in INR terms and 12.6% YoY in US\$ terms QoQ and Up 2.5% in INR terms and 2.3% in US\$ terms YoY. The growth led by EMEA (up by 17.1% YoY/3.1% QoQ), followed by Americas (up by 11.9% YoY/1.9%QoQ), Asia Pacific (up by 10% YoY/3.1%QoQ), and India (up by 99.4% YoY/2.4%QoQ) EBIT margin came in at 11.8% lower than our expected 13.1%; expansion of 29bps QoQ. Adjusted EBITDA margin at 17.6%, improved by 160 bps QoQ. Order Intake Strong: Order intake was \$313 mn, seventh consecutive quarter of \$300+ mn deal wins. Total order book executable over the next 12 months at \$935 mn, up 16.6% YoY. Headcount addition of 414 QoQ and 1,647 YoY and at the end of the quarter increases to 24,638. LTM attrition at 13.0%, down 340 bps YoY. Offshore revenue contribution (IT revenue only) increased to 52%. Client concentration, 8 new clients were added in Q2FY24. DSO days increased by 3 days QoQ at 64 days Utilization rate moderated 100bps QoQ to 80% vs 81% last quarter.

Green shoots visible in BFS: Despite macroeconomic stress, there are positive signs. Investment in digital transformation remains strong, with a focus on innovation and legacy modernization. Financial services contribute 55-60% of our revenue, showing growth potential. Clients in retail and commercial segments of BFS are more confident, resembling "green shoots" of recovery.

Strong order book: Coforge anticipates a margin expansion of 100bps in Q3, driven by factors such as hedge gains (~40 bps), the absence of a client event in Q3 (40 bps), reduced ESOP charges (~30 bps), and some benefits from ARC, although partially offset by the impact of furloughs. The company maintains its confidence in achieving a margin of ~18.3% in FY24. This optimism is supported by the increase in offshore revenue share, up by 220 bps YoY, and the goal to reach 55% (up from 52%).

Gen AI: Innovative Solutions Fueling Scalable Deal Conversions: Continuing to explore prospects in Gen AI and advanced analytics, success in sealing deals is driven by expertise in productization, legacy modernization, product innovation, and cloud migration. The unique customer-centric approach of challenger organizations, along with their hunger to meet enterprise client demands, contributes to the growing deal volume and conversion rates at scale.

Valuations and outlook

Coforge Ltd's Q2 USD revenue growth outperformed its industry peers but fell short of the company's anticipated targets. The management remains optimistic due to their robust deal execution, ongoing momentum, and proactive investments aimed at sustaining growth, even in the face of economic challenges. The company is expected to maintain its growth trajectory beyond FY24, as indicated by its significant victories in the BFSI sector. 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. **We value, Coforge at a PE of 27x its FY25E EPS of ~195, which yields a target price of INR 5,260 per share (Earlier target price of INR 5,284 per share). Despite strong execution and client relationships, we downgrade to Neutral from an Accumulate earlier on the stock, reflecting current valuations.**

Exhibit 1: Financial Overview

YE	Revenue (Mn USD)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)			A					
FY23	1002	80,146	12,807	6,938	111.5	16.0%	24.2%	43.2
FY24E	1158	91,416	14,992	8,510	140.4	16.4%	22.1%	34.3
FY25E	1285	99,510	17,116	10,442	172.3	17.2%	21.8%	28.0
FY26E	1443	1,08,241	18,726	11,806	194.8	17.3%	20.1%	24.7

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Source: Arihant Research, Company Filings

Exhibit 2: Q2FY24 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	278.1	271.8	246.9	2.3%	12.6%
Gross Revenue (INR Mn)	22,762	22,210	19,594	2.5%	16.2%
Direct Cost (INR Mn)	15,374	15,401	13,316	-0.2%	15.5%
Gross Profit	7,388	6,809	6,278	8.5%	17.7%
GM %	32.5%	30.7%	32.0%	180bps	42bps
Selling / General And Administration	3,392	3,264	2,682	3.9%	26.5%
SG&A to Revenue %	14.9%	14.7%	13.7%	21bps	121bps
Adj. EBITDA	3,996	3,545	3,596	12.7%	11.1%
Adj.EBITDA margin %	17.6%	16.0%	18.4%	159bps	-80bps
Acquisition related expenses	4	-	4	-	-
Cost of ESOPS	519	216	147	140.3%	252.1%
EBITDA (INR Mn)	3,473	3,329	3,444	4.3%	0.8%
EBITDA margin %	15.3%	14.99%	17.6%	27bps	-232bps
Depreciation and Amortization	772	757	614	2.0%	25.7%
EBIT	2,701	2,572	2,830	5.0%	-4.6%
EBIT margin %	11.87%	11.58%	14.44%	29bps	-258bps
Other Income (net)	-295	-160	-150		
Profit Before Tax	2,406	2,412	2,680	-0.2%	-10.2%
PBT % (Before exceptional items)	10.6%	10.9%	13.7%	-29bps	-311bps
Exceptional items*	-	-	-		
\$1 Bn Milestone celebration cost	-	165	-		
Profit Before Tax	2,406	2,247	2,680	7.1%	-10.2%
PBT %	10.6%	10.1%	13.7%	45bps	-311bps
Provision for Tax	528	485	474	8.9%	11.4%
Minority Interest	69	104	195	-33.7%	-64.6%
PAT (INR Mn)	1,809	1,658	2,011	9.1%	-10.1%
PAT margin %	7.9%	7.5%	10.3%	48bps	-232bps
EPS (INR)	29.6	27.0	33.0	9.6%	-10.3%
Particulars (in INR million)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Americas	11,245	11,030	10,047	1.9%	11.9%
Europe , Midd le East and Africa	8,838	8,575	7,547	3.1%	17.1%
Asia Pacific	1,612	1,563	1,465	3.1%	10.0%
India	1,067	1,042	535	2.4%	99.4%

Q2FY24 Conference call Highlights:

- The company maintained its FY24 revenue growth guidance at 13-16% in constant currency terms, with an EBITDA margin in line with FY23 at 18% or higher, and observed a 160 bps sequential growth in Q3, anticipating an additional 100 bps or higher growth in Q3 compared to Q2.
- **Vertical-wise:** Growth included a 3.8% QoQ increase in the BFS sector, contributing 31.6% to revenue, while the Insurance sector saw a 3rd consecutive quarter of 2.4% sequential growth, contributing 22.6% to revenue.
- In Q2 of FY24, the travel sector grew by 2.3% QoQ, contributing 18.5% to total revenue. Other verticals saw a 0.6% growth, making up 27.3% of revenue.
- The top five clients contributed 23.5% of revenues, and the top 10 accounted for 35.2%. Offshore revenue reached 52% in Q2, up from around 51% in Q1.
- **Margin:** Excluding the hedge loss in quarter two, the sequential margin expansion would have been ~200 bps, with a 180 bps QonQ and 42 bps YoY increase in gross margin, aligning with the 50 bps expansion target for the adjusted EBITDA margin in FY24.
- H1 CapEx stands at USD12 mn, and ESOP costs are higher in Q2FY24 due to one-time accelerated vesting expenses, potentially 30 bps above expectations. Expect the ESOP costs to normalize from Q3 onwards.
- Clients in BFS vertical under retail and commercial segments are more confident when comes to investment. Green Shoots witnessed in BFS Vertical.
- Repeat Business stood at 95% for Q2FY24 (vs 96% for Q1FY24).
- Shift towards higher offshore revenue may support EBIT Margins.

Exhibit 3: Business Matrix

Business Mix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Vertical Mix						
Insurance	23.1%	23.2%	22.1%	22.2%	22.6%	31.6%
BFS	29.5%	31.7%	31.1%	31.0%	31.1%	22.6%
Travel and Transport	19.4%	19.3%	19.3%	18.8%	18.5%	18.5%
Others	28.0%	25.8%	27.4%	28.0%	27.8%	27.3%
Total	100.0%	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%	8.9%
Intelligent Automation	12.6%	12.6%	11.8%	11.1%	11.5%	12.1%
Data and Integration	23.3%	23.1%	23.9%	23.6%	24.0%	24.5%
Cloud and Infrastructure Management (CIMS)	18.2%	17.5%	18.6%	19.0%	20.0%	18.5%
Application Development and Maintenance (ADM)	24.2%	25.8%	26.7%	27.7%	25.6%	26.6%
Business Process Management (BPM)	11.1%	10.4%	9.1%	9.0%	9.5%	9.5%
Geography Mix						
Americas	51.3%	51.3%	49.2%	48.3%	49.7%	49.4%
EMEA	36.9%	38.5%	40.3%	39.6%	38.6%	38.8%
ROW	11.9%	10.2%	10.5%	12.1%	11.7%	11.8%
Total	100%	100%	100%	100%	100%	100%
Billable People						
Onsite	52%	50%	50%	49%	49%	48%
Offshore	48%	50%	51%	51%	51%	52%
Total	100%	100%	100%	100%	100%	100%
Client Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
New Clients Added						
Americas	6	5	5	6	4	5
EMEA	4	4	2	2	1	2
Rest of World	2	2	4	2	1	1
Total	12	11	11	10	6	8
Repeat Business %	96%	94%	93%	92%	96%	95%
Client Concentration (% of Revenue)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Top 5	23%	23%	24%	23%	25%	24%
Top 10	36%	36%	36%	36%	38%	35%
No. of Clients (by Client Engagement Size)						
Above USD 10 Mn	19	19	21	21	21	23
USD 5-10 Mn	24	26	23	23	24	23
USD 1-5 Mn	98	97	98	101	102	104
People Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
By Role						
Billable Personnel						
IT	15,448	15,912	15,721	16,182	16,827	17,106
BPS	6,046	5,780	5,432	5,633	5,935	6,025
Total Billable	21,494	21,692	21,153	21,815	22,762	23,131
Sales and Marketing	285	291	317	350	363	360
Others	963	1,008	1,035	1,059	1,099	1,147
Total	22,742	22,991	22,505	23,224	24,224	24,638

Source: Arihant Research, Company Filings

Exhibit 4: Revenue trend over quarters

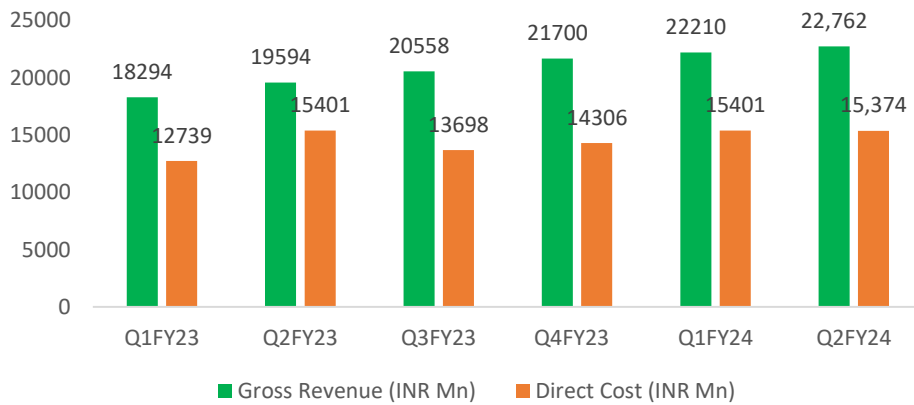


Exhibit 5: Better profitability trend

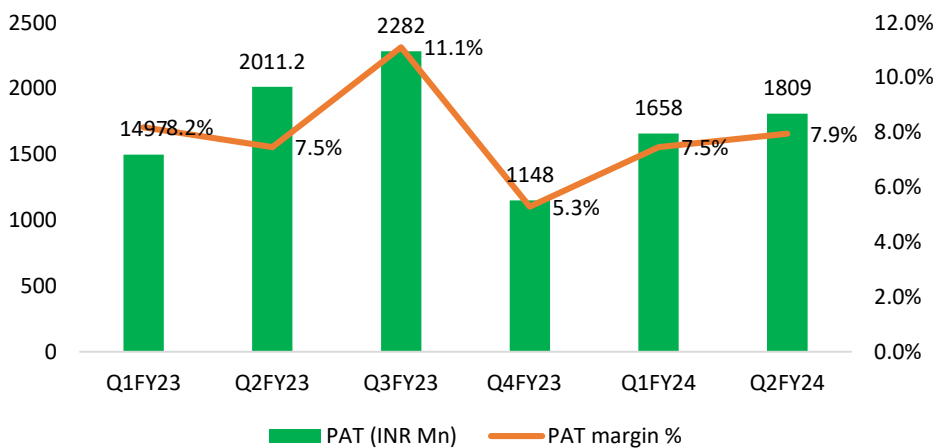
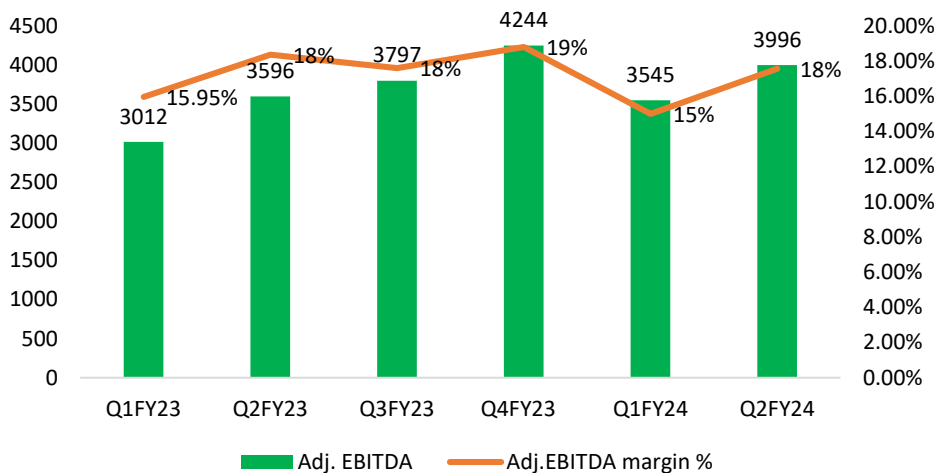


Exhibit 6: Margin impacted led by salary hike impact



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
Revenue (Mn USD)	1002	1158	1285	1443
Change (%)	15.6%	15.6%	11.0%	12.3%
Revenues	80,146	91,416	99,510	1,08,241
Change (%)	24.6%	14.1%	8.9%	8.8%
Operating Costs	551	3,565	3,881	4,221
Gross Profit	79,595	87,851	95,629	1,04,020
Employee Costs	48,280	55,032	59,905	65,161
Other Expenses	18,508	17,826	18,608	20,133
Total Expenses	67,339	76,424	82,394	89,515
EBITDA	12,807	14,992	17,116	18,726
EBITDA Margin (%)	15.98%	16.40%	17.20%	17.30%
Depreciation	2,585	3,310	3,528	3,612
EBIT	10,222	11,683	13,588	15,113
EBIT Margin	12.75%	12.78%	13.65%	13.96%
Interest	806	814	822	830
PBT	10,035	11,051	13,562	15,333
Extra-ordinary	523.00	-	-	-
PBT after ext-ord.	9,512	11,051	13,562	15,333
Tax	2,061	2,542	3,119	3,527
Rate (%)	22.0%	23.0%	23.0%	23.0%
PAT	7,451	8,510	10,442	11,806
MI & Associates	513	-	-	-
Consolidated PAT	6,938	8,510	10,442	11,806
Change (%)	12.8%	14.1%	22.7%	13.1%

Balance Sheet (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Share Capital	611	611	611	611
Reserves & Surplus	30,214	37,815	47,348	58,245
Net Worth	30,825	38,426	47,959	58,856
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	43,868	53,551	64,603
Application of Funds				
Gross Block	21,366	22,064	22,761	23,457
Net Block	18,781	18,754	19,233	19,845
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	23,921	24,400	25,012
Investments	-	-	-	-
Debtors	17,903	17,903	22,356	24,317
Inventories	-	-	-	-
Cash & Bank Balance	5,787	17,073	23,747	34,140
Loans & Advances & other CA	4,858	4,858	4,858	4,858
Total Current Assets	28,548	39,834	50,961	63,315
Current Liabilities	19,835	19,887	21,810	23,724
Provisions	-	-	-	-
Net Current Assets	8,713	19,947	29,150	39,591
Total Assets	36,125	43,868	53,551	64,603

Cash Flow Statement (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
PBT	9,512	11,051	13,562	15,333
Depreciation	2,585	3,310	3,528	3,612
Interest & others	662	631	26	-220
Cash flow before WC changes	12,759	14,992	17,116	18,726
(Inc)/dec in working capital	2,777	52	-2,530	-48
Operating CF after WC changes	15,536	15,045	14,586	18,678
Less: Taxes	-2,061	-2,542	-3,119	-3,527
Operating Cash Flow	13,475	12,503	11,467	15,151
(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	11,805	10,770	14,455
Loan raised/(repaid)	17	143	149	155
Equity raised	2	-	-	-
Interest & others	2,612	-11,417	-3,336	-3,308
Dividend	-1,151	-909	-909	-909
Cash Flow from Financing Activities	1,480	-12,184	-4,096	-4,062
Net inc/(dec) in cash	1,251	11,286	6,674	10,393
Opening balance of cash	4,536	5,787	17,073	23,747
Closing balance of cash	5,787	17,073	23,747	34,140

Key Ratios				
Year End-March	FY23	FY24E	FY25E	FY26E
Per share (INR)				
EPS	111.5	140.4	172.3	194.8
CEPS	157.1	195.0	230.5	254.4
BVPS	508.7	634.1	791.4	971.2
DPS	19.0	15.0	15.0	15.0
Div. Payout (%)	0.2	0.1	0.1	0.1
P/E	45.8	36.4	29.6	26.2
P/CEPS	32.5	26.2	22.2	20.1
P/BV	10.0	8.1	6.5	5.3
EV/EBITDA	5.4	3.9	3.0	2.2
Dividend Yield (%)	0.4%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	16.0%	16.4%	17.2%	17.3%
EBIT Margin	12.8%	12.8%	13.7%	14.0%
PAT Margin	9.3%	9.3%	10.5%	10.9%
ROE	24.2%	22.1%	21.8%	20.1%
ROCE	28.3%	26.6%	25.4%	23.4%
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	2.1	1.9	1.7
Receivable Days	82	82	82	82
Payable days	90	80	80	80

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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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