

CMP: INR 6,283

Rating: Accumulate

Target Price: INR 7,292

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)	6,789/3565
Avg Yearly Vol (in 000')	231

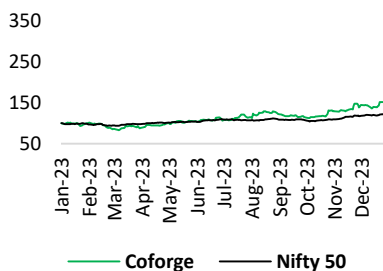
Shareholding Pattern %

(As on Dec, 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	1.9	10.3	19.6

Coforge Vs Nifty 50



Coforge, beat on the top line and margins a tad below estimates. Coforge reported revenue growth of 1.8% CC QoQ above our estimate of 1.0%. Order intake was \$354 mn, eight consecutive quarters of \$300+ mn deal wins. Revenue for the quarter was INR 23,233 Mn (Estimated INR 23,350 Mn) & USD 282 Mn (USD 280Mn), Up 12% YoY in INR terms and 13% YoY in US\$ terms QoQ and Up 2.1% in INR terms and 1.4% in US\$ terms YoY. The growth led by EMEA (up by 12.1% YoY/5.2% QoQ), followed by India (up by 106.6% YoY/41.1%QoQ), Asia Pacific (up by 13.2% YoY/-0.2%QoQ), and Americas (up by 6.9% YoY/-3.8%QoQ). EBIT margin came in at 13.7% in line with our expected 13.9%; expansion of 191bps QoQ/-77bps. Adjusted EBITDA margin at 17.3%, improved by 201 bps QoQ. PAT came in at 2,380 in below our expectation 2,645, 31.6% QoQ/ 4.3% YoY. Order Intake Strong: Order intake was \$354 million, eight consecutive quarters of \$300+ million deal wins. Total order book executable over the next 12 months at \$974 million, up 15.8% YoY. Headcount: Declined by 31 QoQ and Global headcount to 24607 against 24,638. LTM attrition at 12.1%, down 90 bps YoY. Offshore revenue contribution (IT revenue only) increased to 52.2% Client concentration: 7 new clients were added in Q3FY24. DSO days decreased by 1 days QoQ at 63 days. Utilization rate moderated 60bps QoQ to 79.4% vs 80% last quarter.

Decent growth across the vertical: Despite experiencing extremely high furloughs in the BFS vertical, it achieved a 3.1% sequential growth in cc terms, constituting 32.2% of the overall revenue mix. The insurance vertical remained flat in cc terms, contributing 22% to the Q3 revenue mix. The travel vertical demonstrated a 1% sequential growth in cc terms, making up 17.8% of the total revenue. Other emerging verticals exhibited a 2.5% QoQ growth in cc terms, of contributing significantly at 28.1% to the total revenue mix.

A furlough surge had a greater-than-expected impact on margins: Despite a QoQ increase to 15.1% in SG&A as a percentage of aggregate revenue, rising by 20bps, the company remains committed to strategic investments for future growth. The Q3 margin loss of ~50bps due to higher-than-anticipated furloughs is expected to be fully recovered in Q4, while reported margins expanded with normalized ESOP costs in Q3FY24.

Valuations and outlook

Coforge's Q3FY24 USD revenue growth outperformed its industry peers and beat our estimates. 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 Q4FY24 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 30x its FY26E EPS of ~243, which yields a target price of INR 7,292 per share (Earlier target price of INR 5,260 per share). We upgrade to an Accumulate from Neutral earlier on the stock.**

Exhibit 1: Financial Overview

YE	Revenue (Mn USD)	Net Sales	EBITD A	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March (INR Mn)								
FY23	1002	80,146	12,807	6,938	111.5	16.0%	24.2%	56.3
FY24E	1134	92,948	16,173	8,963	147.9	17.4%	23.1%	42.5
FY25E	1309	1,08,673	19,235	12,006	198.1	17.7%	24.0%	31.7
FY26E	1494	1,25,327	22,684	14,729	243.1	18.1%	23.1%	25.9

Source: Arihant Research, Company Filings

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Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	282.0	278.1	251.7	1.4%	12.0%
Gross Revenue (INR Mn)	23,233	22,762	20,558	2.1%	13.0%
Direct Cost (INR Mn)	15,555	15,374	13,698	1.2%	13.6%
Gross Profit	7,678	7,388	6,860	3.9%	11.9%
GM %	33.0%	32.5%	33.4%	59bps	-32bps
Selling / General And Administration	3,508	3,392	3,063	3.9%	26.5%
SG&A to Revenue %	15.1%	14.9%	14.9%	20bps	20bps
Adj. EBITDA	4,170	3,996	3,797	12.7%	11.1%
Adj.EBITDA margin %	17.9%	17.6%	18.5%	39bps	-52bps
Acquisition related expenses		4	-	-	-
Cost of ESOPS	158	519	182	-69.6%	-13.2%
EBITDA (INR Mn)	4,012	3,473	3,615	15.5%	11.0%
EBITDA margin %	17.3%	15.3%	17.6%	201bps	-32bps
Depreciation and Amortization	811	772	624	5.1%	30.0%
EBIT	3,201	2,701	2,991	18.5%	7.0%
EBIT margin %	13.78%	11.87%	14.55%	191bps	-77bps
Other Income (net)	-257	-295	83		
Profit Before Tax	2,944	2,406	3,074	22.4%	-4.2%
PBT % (Before exceptional items)	12.7%	10.6%	15.0%	210bps	-228bps
Exceptional items*	-	-	-		
\$1 Bn Milestone celebration cost	-	-	-		
Profit Before Tax	2,944	2,406	3,074	22.4%	-4.2%
PBT %	12.7%	10.6%	15.0%	210bps	-228bps
Provision for Tax	516	528	715	-2.3%	-27.8%
Minority Interest	48	69	77	-30.4%	-37.7%
PAT (INR Mn)	2,380	1,809	2,282	31.6%	4.3%
PAT margin %	10.2%	7.9%	11.1%	230bps	-86bps
EPS (INR)	38.6	29.6	37.4	30.4%	3.2%

Particulars (in INR million)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Americas	10819	11,245	10,116	-3.8%	6.9%
Europe , Middle East and Africa	9,300	8,838	8,293	5.2%	12.1%
Asia Pacific	1,608	1,612	1,420	-0.2%	13.2%
India	1,506	1,067	729	41.1%	106.6%

Q3FY24 Conference call Highlights:

- **Maintained FY24 revenue growth guidance of 13%-16% in cc terms with EBITDA margin similar to FY23 at 18% or higher, FY25 EBITDA margin expected to be more than that of FY24, led by lower average cost of resource. Has headroom of around 150 bps for improvement in employee utilization in coming quarters.**
- **Furlough:** The company encountered elevated challenges due to unusually high furloughs in the banking and insurance industries, which are core sectors, coupled with a generally subdued demand environment.
- 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.
- **Order:** For the 8th consecutive quarter, the firm achieved an order intake surpassing \$300 mn, with contributions from America at \$110 mn, EMEA at \$172 mn, and the rest of the world at \$72 mn in Q3. Despite challenging macro and IT spend environments, the company signed three large deals, totaling eight for the fiscal year, resulting in an executable order book of \$974 mn, marking a significant 15.8% increase.
- **Demand** environment remains challenging with macro uncertainty impacting tech spending of clients.
- **Travel segment:** Mixed demand in the travel industry sees airlines and airports leading spending, while logistics and hospitality show lower interest. Cost-cutting, productization, and a focus on security and digital solutions drive current demand trends.
- **Budgets:** Banking budgets are increasing by 4%, concentrated on transformation, with a focus on agility, innovation, and compliance in BFSI. Global insurance premiums are estimated to rise by 2.2%, emphasizing legacy modernization, cloud migration, and digital transformation in the Asia Pacific and other regions.
- Integration of Gen AI with existing revenue streams is driving business growth.
- Interest cost will be lower in Q1FY25 led by paying off of costly debt.

Exhibit 3: Business Matrix

Business Mix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Vertical Mix							
BFS	23.1%	23.2%	22.1%	22.2%	22.6%	31.6%	32.2%
Insurance	29.5%	31.7%	31.1%	31.0%	31.1%	22.6%	22.0%
Travel and Transport	19.4%	19.3%	19.3%	18.8%	18.5%	18.5%	17.8%
Others	28.0%	25.8%	27.4%	28.0%	27.8%	27.3%	28.0%
Total	100.0%	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%	7.8%
Intelligent Automation	12.6%	12.6%	11.8%	11.1%	11.5%	12.1%	11.3%
Data and Integration	23.3%	23.1%	23.9%	23.6%	24.0%	24.5%	25.7%
Cloud and Infrastructure Management (CIMS)	18.2%	17.5%	18.6%	19.0%	20.0%	18.5%	18.9%
Software Engineering	24.2%	25.8%	26.7%	27.7%	25.6%	26.6%	27.1%
Business Process Management (BPM)	11.1%	10.4%	9.1%	9.0%	9.5%	9.5%	9.2%
Geography Mix							
Americas	51.3%	51.3%	49.2%	48.3%	49.7%	49.4%	46.6%
EMEA	36.9%	38.5%	40.3%	39.6%	38.6%	38.8%	40.0%
ROW	11.9%	10.2%	10.5%	12.1%	11.7%	11.8%	13.4%
Total	100%	100%	100%	100%	100%	100%	100%
Billable People							
Onsite	52%	50%	50%	49%	49%	48%	48%
Offshore	48%	50%	51%	51%	51%	52%	52%
Total	100%	100%	100%	100%	100%	100%	100%
Client Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
New Clients Added							
Americas	6	5	5	6	4	5	3
EMEA	4	4	2	2	1	2	2
Rest of World	2	2	4	2	1	1	2
Total	12	11	11	10	6	8	7
Repeat Business %	96%	94%	93%	92%	96%	95%	94%
Client Concentration (% of Revenue)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Top 5	23%	23%	24%	23%	25%	24%	23%
Top 10	36%	36%	36%	36%	38%	35%	34%
No. of Clients (by Client Engagement Size)							
Above USD 10 Mn	19	19	21	21	21	23	24
USD 5-10 Mn	24	26	23	23	24	23	23
USD 1-5 Mn	98	97	98	101	102	104	109
People Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
By Role							
Billable Personnel							
IT	15,448	15,912	15,721	16,182	16,827	17,106	16,897
BPS	6,046	5,780	5,432	5,633	5,935	6,025	6,210
Total Billable	21,494	21,692	21,153	21,815	22,762	23,131	23,107
Sales and Marketing	285	291	317	350	363	360	368
Others	963	1,008	1,035	1,059	1,099	1,147	1,132
Total	22,742	22,991	22,505	23,224	24,224	24,638	24,607
Utilization/Attrition (Excl BPS)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Utilization	76.20%	77.30%	80.30%	81.50%	81.00%	80.00%	79.40%
Attrition Rate	18.00%	16.40%	15.80%	14.10%	13.30%	13.00%	12.10%

Source: Arianth Research, Company Filings

Exhibit 4: Revenue trend over quarters

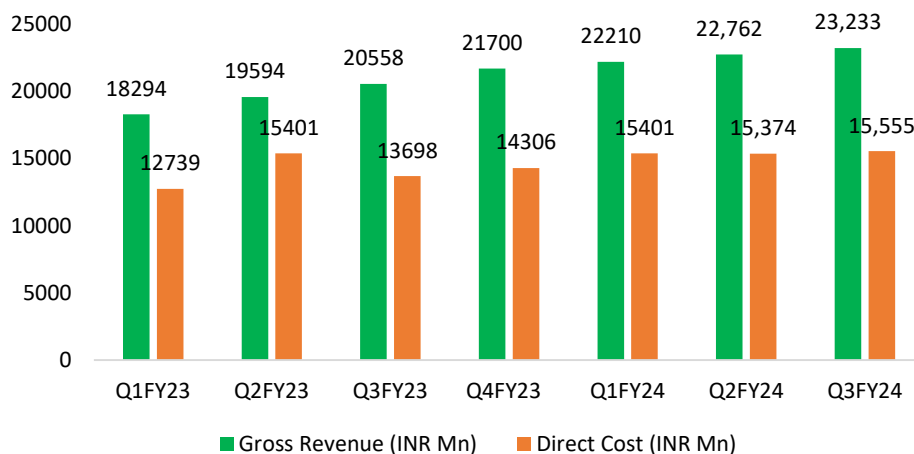


Exhibit 5: Better profitability trend

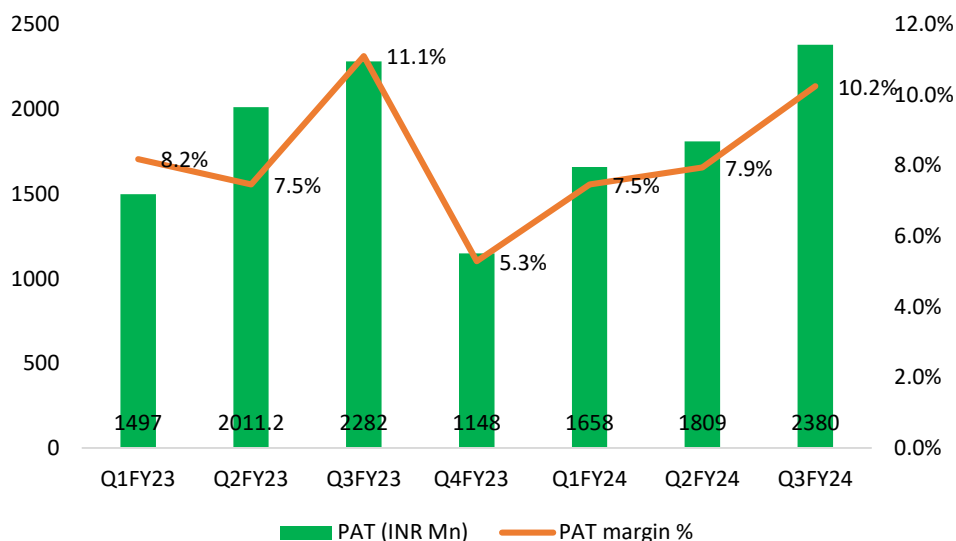
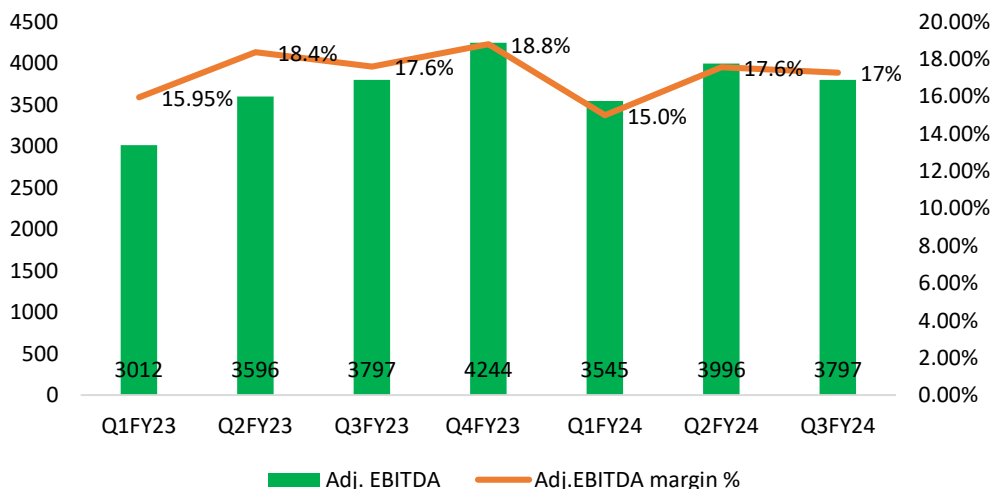


Exhibit 6: Margin impacted led by salary hike impact



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
Revenue (Mn USD)	1002	1134	1309	1494
Change (%)	15.6%	13.2%	15.5%	14.1%
Revenues	80,146	92,948	1,08,673	1,25,327
Change (%)	24.6%	16.0%	16.9%	15.3%
Operating Costs	551	3,625	4,238	4,888
Gross Profit	79,595	89,323	1,04,434	1,20,439
Employee Costs	48,280	55,025	64,878	74,444
Other Expenses	18,508	18,125	20,322	23,311
Total Expenses	67,339	76,775	89,438	1,02,643
Adj. EBITDA	12,807	16,173	19,235	22,684
Adj. EBITDA Margin (%)	15.98%	17.40%	17.70%	18.10%
Depreciation	2,585	3,751	3,642	3,988
Interest	806	967	870	783
PBT	10,035	11,641	15,592	19,129
Extra-ordinary	523.00	-	-	-
PBT after ext-ord.	9,512	11,641	15,592	19,129
Tax	2,061	2,677	3,586	4,400
Rate (%)	22.0%	23.0%	23.0%	23.0%
PAT	7,451	8,963	12,006	14,729
MI & Associates	513	-	-	-
Consolidated PAT	6,938	8,963	12,006	14,729
Change (%)	12.8%	20.1%	33.9%	22.7%

Cash Flow Statement (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
PBT	9,512	11,641	15,592	19,129
Depreciation	2,585	3,751	3,642	3,988
Interest & others	662	781	1	-432
Cash flow before WC changes	12,759	16,173	19,235	22,684
(Inc)/dec in working capital	2,777	52	-2,580	-91
Operating CF after WC changes	15,536	16,225	16,655	22,593
Less: Taxes	-2,061	-2,677	-3,586	-4,400
Operating Cash Flow	13,475	13,548	13,069	18,193
(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	12,850	12,372	17,497
Loan raised/(repaid)	17	143	149	155
Equity raised	2	-	-	-
Interest & others	2,612	-11,567	-3,752	-3,210
Dividend	-1,151	-909	-909	-909
Cash Flow from Financing Activities	1,480	-12,334	-4,512	-3,964
Net inc/(dec) in cash	1,251	12,181	7,860	13,534
Opening balance of cash	4,536	5,787	17,968	25,828
Closing balance of cash	5,787	17,968	25,828	39,362

Balance Sheet (INR Mn)				
Year End-March	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Share Capital	611	611	611	611
Reserves & Surplus	30,214	38,268	49,365	63,185
Net Worth	30,825	38,879	49,976	63,796
Loan Funds				
MI, Deferred Tax & other Liabilities	1,918	1,918	1,918	1,918
Capital Employed	36,125	44,322	55,568	69,543
Application of Funds				
Gross Block	21,366	22,064	22,761	23,457
Net Block	18,781	18,313	19,119	19,469
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	23,480	24,286	24,636
Investments				
Debtors	17,903	17,903	24,414	28,156
Inventories	-	-	-	-
Cash & Bank Balance	5,787	17,968	25,828	39,362
Loans & Advances & other CA	4,858	4,858	4,858	4,858
Total Current Assets	28,548	40,729	55,100	72,375
Current Liabilities	19,835	19,887	23,819	27,469
Provisions	-	-	-	-
Net Current Assets	8,713	20,842	31,282	44,907
Total Assets	36,125	44,322	55,568	69,543

Key Ratios				
Year End-March	FY23	FY24E	FY25E	FY26E
Per share (INR)				
EPS	111.5	147.9	198.1	243.1
CEPS	157.1	209.8	258.2	308.9
BVPS	508.7	641.6	824.7	1052.7
DPS	19.0	15.0	15.0	15.0
Div. Payout (%)	0.2	0.1	0.1	0.1
P/E	56.3	42.5	31.7	25.9
P/CEPS	40.0	29.9	24.3	20.3
P/BV	12.4	9.8	7.6	6.0
EV/EBITDA	5.4	3.6	2.6	1.6
Dividend Yield (%)	0.3%	0.2%	0.2%	0.2%
Return ratio (%)				
EBIDTA Margin	16.0%	17.4%	17.7%	18.1%
EBIT Margin	12.8%	13.4%	14.3%	14.9%
PAT Margin	9.3%	9.6%	11.0%	11.8%
ROE	24.2%	23.1%	24.0%	23.1%
ROCE	28.3%	28.0%	28.1%	26.9%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	-0.1	-0.4	-0.4	-0.6
Turnover Ratios				
Asset Turnover (x)	2.2	2.1	2.0	1.8
Receivable Days	82	82	82	82
Payable days	90	80	80	80

Source: Arian 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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