

**CMP: INR 3,967**

**Rating: Accumulate**

**Target Price: INR 4,464**

**Stock Info**

BSE	533179
NSE	COFORGE
Bloomberg	COFORGE.IN
Reuters	COFORGE.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	609
Mkt Cap (INR mn)	254,328
52w H/L (INR)	5440/3210
Avg Yearly Vol (in 000')	495

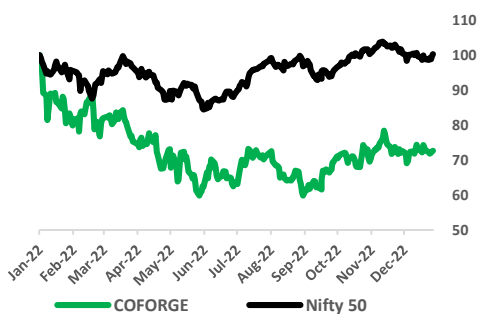
**Shareholding Pattern %**

(As on Dec, 2022)

Promoters	39.99
FII	21.30
DII	26.73
Public & Others	11.98

	1m	3m	12m
Coforge	8.4	9.5	-20.4
Nifty 50	-1.5	3.0	1.9

**Coforge Vs Nifty 50**



**Coforge raises FY23 CC revenue growth guidance to 22% from at least 20%. Maintains adjusted EBITDA annual margin guidance 18.5-19%.** Reported revenue of \$ 251.7Mn (up 1.9% QoQ/13.6%YoY in USD terms) against our estimate of \$254.4 Mn. The cc growth was 3.7% QoQ/20.7% YoY. Reported revenue of INR 20,558 Mn up 4.9% QoQ/ 24% YoY against our estimate of INR 20,819mn. 170 bps difference between the constant currency and dollar growth, was an account of 70 bps of hedge losses and 100 bps came from cross currency headwinds.

**Strong vertical growth despite the softness in mortgage portfolio:** During this quarter, the BFS vertical grew by 39.3% year-on-year in CC terms, and contributed 31.1% to the total revenue. The strong growth came despite the impact of very considerable softness in bps mortgage portfolio. Travel vertical grew 25.6% YoY in CC terms and it contributed 19.3% to the revenue mix. The insurance vertical revenue declined by 6.8% YoY in CC terms and contributed 22.1% to the Q3 level. The others vertical grew by 24.1% YoY in CC terms and contributed 27.4% to the revenue mix. Within the others vertical, retail and healthcare now stand at about 8% of global company revenue and the public sector outside India stands at around 7%.

**Slightly margin expansion sequentially led by strong deal wins:** Adj. EBITDA margin was up 12bps QoQ/-99bps YoY at 18.5% (up from 18.4% in Q2FY23) largely driven by deal wins. The entire tailwind on margins, on account of rupee depreciation was wiped away by the hedge losses sustained Q3FY23. That hedge loss of INR129 mn in Q3FY23, created a headwind of 60 bps on the margins. The company is investing aggressively, the front end leadership and capability.

**Healthy order book:** The order booking for the Q3FY23, was at \$345 mn. Five large deals signed during the quarter (including one \$50M+ TCV deal). Fourth consecutive quarter of \$300+ Mn order intake. Order book executable over next 12 months stood at \$841 Mn at the end of the quarter, a 20.0% YoY growth. Americas contributed \$208 mn, EMEA \$113 mn and the Rest of the world \$24 mn to the overall order intake.

**Valuations**

We see the company's robust growth performance and improvement in deal wins. The company has also been able to expand margins and raises FY23 CC revenue growth guidance to 22% from at least 20%. Maintains adjusted EBITDA annual margin guidance of 18.5-19% in a tough supply environment. While we continue to see good operational performance from the company led by strong improvement in the repeat businesses. We expect USD revenue to grow at 15% CAGR in FY22-25E along with the EBITDA margin to improve 18.1%/18.5%/18.7% over FY23-25E. **We value, Coforge at a PE of 23x its FY25E EPS of 194, which yields a target price of INR 4,464 per share (Earlier target price of INR 4,133 per share). We upgrade our rating from Hold to Accumulate.**

**Exhibit 1: Financial Performance**

YE	Revenue (CC Terms) (INR Mn)	Net Sales	EBITD A	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
March								
FY22	866.5	64,320	11,019	6,617	109.2	17.1%	23.4%	36.3
FY23E	1000	79,690	14,424	8,662	142.9	18.1%	24.2%	27.8
FY24E	1154	90,005	16,651	10,347	170.7	18.5%	22.6%	23.2
FY25E	1322	99,136	18,538	11,761	194.1	18.7%	20.5%	20.4

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

## Exhibit 2: Q3FY23 - Quarterly Performance (Consolidated)

Particulars (in INR million)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
<b>Revenue (Mn USD)</b>	<b>251.7</b>	<b>246.9</b>	<b>221.6</b>	<b>1.9%</b>	<b>13.6%</b>
<b>Gross Revenue</b>	<b>20,558</b>	<b>19,594</b>	<b>16,581</b>	<b>4.9%</b>	<b>24.0%</b>
Direct Cost	13,698	13,316	11,210	2.9%	22.2%
<b>Gross Profit</b>	<b>6,860</b>	<b>6,278</b>	<b>5,371</b>	<b>9.3%</b>	<b>27.7%</b>
<b>GM %</b>	<b>33.4%</b>	<b>32.0%</b>	<b>32.4%</b>	<b>133bps</b>	<b>98bps</b>
Selling / General And Administration	3,063	2,682	2,145	14.2%	42.8%
SG&A to Revenue %	14.9%	13.7%	12.9%	121bps	196bps
<b>Adj. EBITDA</b>	<b>3,797</b>	<b>3,596</b>	<b>3,226</b>	<b>5.6%</b>	<b>17.7%</b>
<b>Adj. EBITDA margin %</b>	<b>18.5%</b>	<b>18.4%</b>	<b>19.5%</b>	<b>12bps</b>	<b>-99bps</b>
Acquisition related expenses	0	4	48	-	-
Cost of ESOPS	182	147	158	23.5%	15.2%
<b>EBITDA</b>	<b>3,615</b>	<b>3,444</b>	<b>3,020</b>	<b>5.0%</b>	<b>19.7%</b>
<b>EBITDA margin %</b>	<b>17.6%</b>	<b>17.6%</b>	<b>18.2%</b>	<b>1bps</b>	<b>-63bps</b>
Depreciation and Amortization	624	614	566	1.6%	10.2%
Other Income (net)	83	-150	-122		
Profit Before Tax	3,074	2,680	2,332	14.7%	31.8%
<b>PBT%</b>	<b>15.0%</b>	<b>13.7%</b>	<b>14.1%</b>	<b>127bps</b>	<b>89bps</b>
Provision for Tax	715	474	360	50.8%	98.6%
Minority Interest	77	195	135	-60.5%	-43.0%
<b>PAT</b>	<b>2,282</b>	<b>2,011</b>	<b>1,837</b>	<b>13.5%</b>	<b>24.2%</b>
<b>PAT margin %</b>	<b>11.1%</b>	<b>10.3%</b>	<b>11.1%</b>	<b>84bps</b>	<b>2bps</b>
<b>EPS (INR)</b>	<b>37.4</b>	<b>33.0</b>	<b>30.3</b>	<b>13.4%</b>	<b>23.6%</b>

Source: Arihant Research, Company Filings

**Q3FY23 Conference call Highlights:**

- **Segment Performance:** During this quarter, the BFS vertical grew by 39.3% YoY in CC terms, and contributed 31.1% to the total revenue. The strong growth came despite the impact of very considerable softness in bps mortgage portfolio. Travel vertical grew 25.6% YoY in CC terms and it contributed 19.3% to the revenue mix.
- The insurance vertical revenue declined by 6.8% YoY in CC terms and contributed 22.1% to the Q3 level. The others vertical grew by 24.1% YoY in CC terms and contributed 27.4% to the revenue mix. Within the others vertical, retail and healthcare now stand at about 8% of global company revenue and the public sector outside India stands at around 7%.
- The company deal signs and order intake remains at all time high.
- **Geography:** Within the geographies, Americas contributed 49.2%, EMEA contributed 40.3% and the ROW contributed 10.5% of the revenue.
- **Wallet Share:** Expect to significantly expand wallet share in the top 10 clients given the clear success that key accounts program has driven for in the recent quarters. The offshore revenue saw further pickup across the 50% mark, representing 50.5% of the total revenue in quarter three.
- **Gross Margin:** Q3 gross margin sequentially increased by 133 bps to 33.4%, the significant increase in gross margin in Q3 came about because of 1) offshore revenue contribution increase, 2) a 300 bps improvement in utilization and 3) continued increase in billing of graduate engineer trainees hire directly from college.
- Coforge, ADR listing has been delayed in view of the condition of global markets; but the management remains committed to it.

**Exhibit 3: Business Matrix**

Revenues from the top 2-5 clients decelerated by 16.6% QoQ. Revenue from the top-20 clients was constant QoQ, while revenue from the non-top-20 clients grew by 11.9% QoQ.

In quarter three, top five customers grew 5.4% sequentially and top 10 customers grew 3.5% sequentially in US dollar terms. Top five clients contribute now 23.9% to an aggregate revenues, while the top 10 contributed 36.3%. The company see the current state of top 10 client relationships offering two distinct advantages.

CapEx spend during the quarter was \$5 million, the Days sales outstanding was 73 days in Q3, versus 70 days in Q2 in INR terms. In USD terms the DSO were 68 days compared to 66 days in Q2.

Business Mix	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Vertical Mix</b>								
Insurance	31.2%	30.8%	29.2%	27.8%	25.7%	23.1%	23.2%	22.1%
BFS	16.8%	21.1%	24.1%	28.4%	27.7%	29.5%	31.7%	31.1%
Travel and Transport	18.9%	18.9%	18.6%	18.3%	20.1%	19.4%	19.3%	19.3%
Others	33.1%	29.2%	28.1%	25.4%	26.5%	28.0%	25.8%	27.4%
<b>Total</b>	100.0%	100.0%	100.0%	99.9%	100.0%	100.0%	100.0%	100.0%
<b>Service Line Mix</b>								
Product Engineering	15.5%	14.0%	12.7%	10.8%	10.7%	10.5%	10.5%	9.9%
Intelligent Automation	15.4%	14.5%	14.3%	14.0%	12.7%	12.6%	12.6%	11.8%
Data and Integration	22.7%	20.2%	20.6%	20.5%	22.0%	23.3%	23.1%	23.9%
Cloud and Infrastructure Management (CIMS)	18.8%	17.1%	17.0%	18.6%	18.0%	18.2%	17.5%	18.6%
Application Development and Maintenance (ADM)	26.5%	25.9%	23.9%	24.7%	25.3%	24.2%	25.8%	26.7%
Business Process Management (BPM)	1.1%	8.4%	11.6%	11.4%	11.2%	11.1%	10.4%	9.1%
<b>Geography Mix</b>								
Americas	51.3%	51.6%	52.2%	53.3%	49.9%	51.3%	51.3%	49.2%
EMEA	36.9%	35.3%	32.5%	33.7%	39.8%	36.9%	38.5%	40.3%
ROW	11.9%	13.1%	15.3%	13.0%	10.3%	11.9%	10.2%	10.5%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%
<b>Billable People</b>								
Onsite	52%	60%	56%	54%	53%	52%	50%	50%
Offshore	48%	40%	44%	46%	47%	48%	50%	51%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%
<b>Client Data</b>	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>New Clients Added</b>								
Americas	4	6	6	8	10	6	5	5
EMEA	5	4	5	3	2	4	4	2
Rest of World	2	1		2	-	2	2	4
<b>Total</b>	11	11	11	13	12	12	11	11
Repeat Business %	86%	96%	93%	92%	93%	96%	94%	93%
<b>Client Concentration (% of Revenue)</b>	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Top 5	25%	25%	23%	25%	23%	23%	23%	24%
Top 10	36%	36%	33%	36%	35%	36%	36%	36%
<b>No. of Clients (by Client Engagement Size)</b>								
Above USD 10 Mn	11	15	16	18	18	19	19	21
USD 5-10 Mn	16	20	22	21	19	24	26	23
USD 1-5 Mn	88	95	92	94	100	98	97	98
<b>People Data</b>	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>By Role</b>								
<b>Billable Personnel</b>								
IT	11,076	12,221	13,035	14,122	14,903	15,448	15,912	15,721
BPS	393	7,118	6,544	6,816	6,391	6,046	5,780	5,432
<b>Total Billable</b>	<b>11,469</b>	<b>19,339</b>	<b>19,579</b>	<b>20,938</b>	<b>21,294</b>	<b>21,494</b>	<b>21,692</b>	<b>21,153</b>
Sales and Marketing	188	258	297	281	278	285	291	317
Others	734	894	910	911	928	963	1,008	1,035
<b>Total</b>	<b>12,391</b>	<b>20,491</b>	<b>20,786</b>	<b>22,130</b>	<b>22,500</b>	<b>22,742</b>	<b>22,991</b>	<b>22,505</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 4: Healthy Order Book

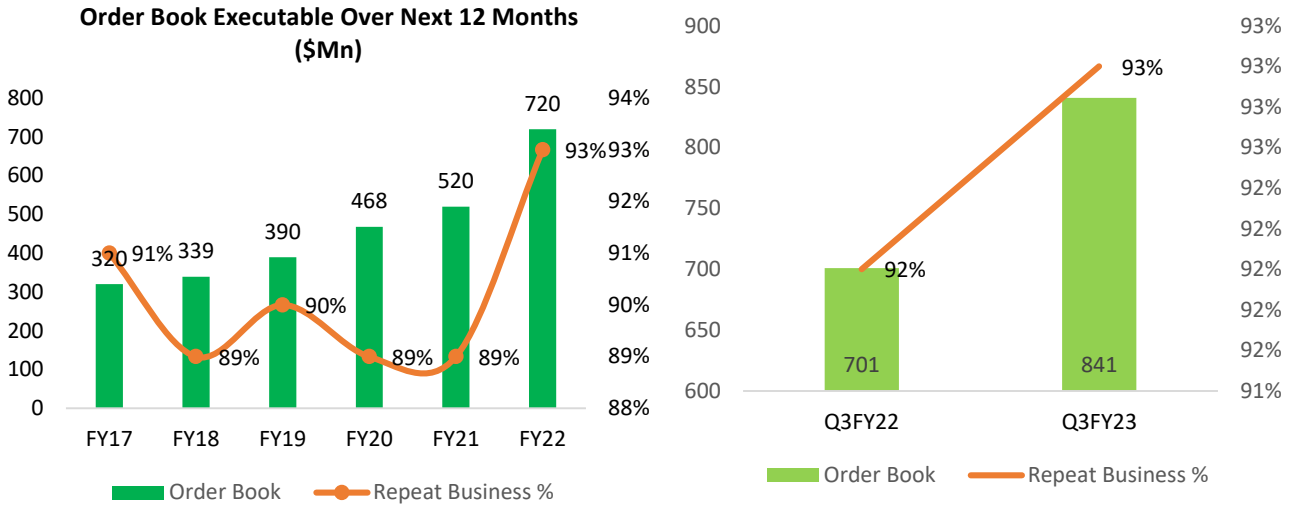


Exhibit 5: Adj EBITDA Margin trend

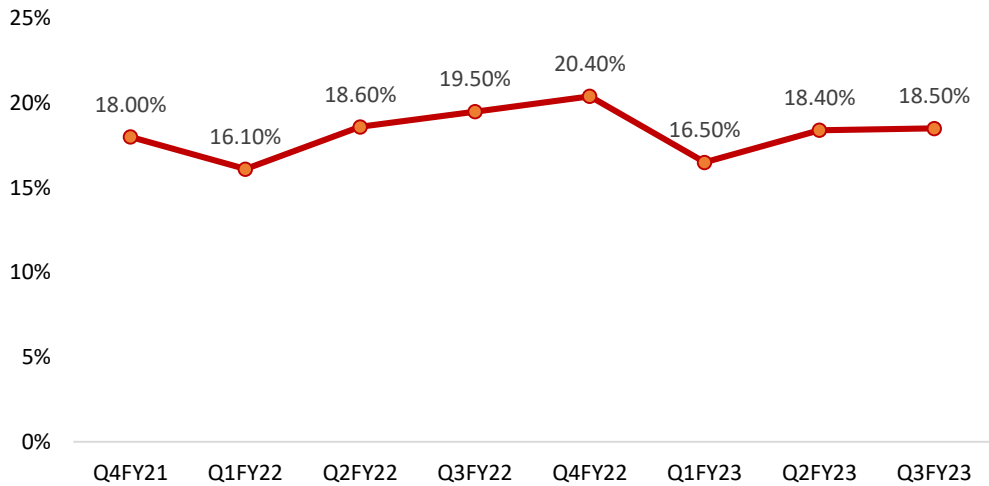
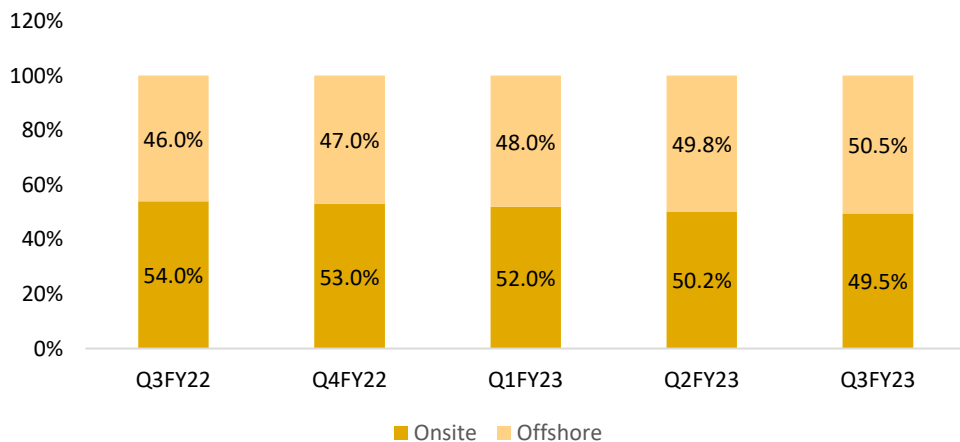


Exhibit 6: Location Mix (IT Revenues Only)



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Key Financials

Income Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
Revenue (CC Terms) (Mn USD)	866.5	1000	1154	1322
Change (%)	37.0%	15.4%	15.4%	14.6%
Revenues	64,320	79,690	90,005	99,136
Change (%)	37.9%	23.9%	12.9%	10.1%
Operating Costs	1,724	3,108	3,510	3,866
Gross Profit	62,596	76,582	86,495	95,270
Employee Costs	38,346	47,017	52,653	57,995
Other Expenses	13,231	15,141	17,191	18,737
Total Expenses	53,301	65,266	73,354	80,597
EBITDA	11,019	14,424	16,651	18,538
Depreciation	2,272	2,349	2,426	2,502
Interest	650	689	730	774
PBT	8,615	11,784	13,945	15,758
Extra-ordinary	-	-	-	-
PBT after ext-ord.	8,615	11,784	13,945	15,758
Tax	1,468	2,593	3,068	3,467
Rate (%)	22.0%	22.0%	22.0%	22.0%
PAT	7,147	9,192	10,877	12,291
MI & Associates	-530	-530	-530	-530
Consolidated PAT	6,617	8,662	10,347	11,761
Change (%)	39.7%	30.9%	19.5%	13.7%

Cash Flow Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
PBT	8,615	11,784	13,945	15,758
Depreciation	2,272	2,349	2,426	2,502
Interest & others	-398	-239	-250	-252
Cash flow before WC changes	10,489	13,894	16,121	18,008
(Inc)/dec in working capital	1,126	-232	-170	-150
Operating CF after WC changes	11,615	13,662	15,951	17,858
Less: Taxes	-1,468	-2,593	-3,068	-3,467
Operating Cash Flow	10,147	11,069	12,883	14,392
(Inc)/dec in F.A + CWIP	-2,780	-699	-698	-697
(Pur)/sale of investment	124	0	0	0
Cash Flow from Investing	-2,656	-699	-698	-697
Free Cash Flow (FCF)	9,447	10,370	12,185	13,695
Equity raised	3	0	0	0
Interest & others	-3,932	-2,157	-2,099	-2,174
Dividend	-788	-788	-788	-788
Cash Flow from Financing Activities	-1,355	-2,768	-2,702	-2,767
Net inc/(dec) in cash	6,136	7,602	9,484	10,928
Opening balance of cash	8,277	14,413	22,015	31,499
Closing balance of cash	14,413	22,015	31,499	42,427

Balance Sheet (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
<b>Sources of Funds</b>				
Share Capital	609	609	609	609
Reserves & Surplus	26,722	35,126	45,215	56,719
Net Worth	28,314	35,735	45,824	57,328
<b>Loan Funds</b>				
MI, Deferred Tax & other Liabilities	1,864	1,864	1,864	1,864
Capital Employed	33,543	41,140	51,415	63,113
<b>Application of Funds</b>				
Gross Block	20,667	21,366	22,064	22,761
Net Block	18,395	19,017	19,638	20,259
CWIP	168	86	86	86
Other Non-current Assets	1,045	1,045	1,045	1,045
Deferred Tax Assets	2,736	2,736	2,736	2,736
Net Fixed Assets	22,344	22,884	23,505	24,126
<b>Investments</b>				
Debtors	15,585	19,213	21,700	23,901
Inventories	-	-	-	-
Cash & Bank Balance	4,536	12,138	21,622	32,550
Loans & Advances & other CA	4,808	4,808	4,808	4,808
Total Current Assets	24,929	36,159	48,130	61,259
Current Liabilities	14,507	17,903	20,220	22,272
Provisions	-	-	-	-
Net Current Assets	10,422	18,256	27,909	38,987
Total Assets	33,543	41,140	51,415	63,113

Key Ratios				
Year End-March	FY22	FY23E	FY24E	FY25E
<b>Per share (Rs)</b>				
EPS	109.2	142.9	170.7	194.1
CEPS	146.7	181.7	210.8	235.4
BVPS	467.2	589.7	756.2	946.0
DPS	13.0	13.0	13.0	13.0
Div. Payout (%)	0.1	0.1	0.1	0.1
P/E	36.3	27.8	23.2	20.4
P/CEPS	27.0	21.8	18.8	16.9
P/BV	8.5	6.7	5.2	4.2
EV/EBITDA	6.4	4.4	3.3	2.3
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
<b>Return ratio (%)</b>				
EBIDTA Margin	17.1%	18.1%	18.5%	18.7%
EBIT Margin	13.6%	15.2%	15.8%	16.2%
PAT Margin	10.3%	10.9%	11.5%	11.9%
ROE	23.4%	24.2%	22.6%	20.5%
ROCE	26.1%	29.4%	27.7%	25.4%
<b>Leverage Ratio (%)</b>				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.2	-0.4	-0.5
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.9	1.9	1.8	1.6
Receivable Days	88	88	88	88
Payable days	82	82	82	82

Source: Arianth Research, Company Filings

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880