

January 22, 2024

RESULT REPORT Q3 FY24 | Information Technology

Coforge Ltd

Confident to meet lower end of 13% to 16% cc revenue growth guidance for FY24

Result Synopsis

Coforge (COFORGE) reported mixed financial performance for the quarter. Both, the sequential revenue growth and EBIT margin were slightly below expectation. It reported constant currency growth of 1.8% QoQ (up 1.4% QoQ in USD terms), led by Banking Vertical (up 3.3% QoQ) and Others Vertical (up 4.4% QoQ). There was sequential improvement in EBIT margin (up 191 bps QoQ) led by focus on operational efficiency. Employee attrition continues to decline as LTM attrition decreased by 90 bps QoQ to 12.1%. Its employee attrition remains one of the lowest in the IT Industry. Offshore revenue mix now contributes 52.2% to total revenue, having grown from 50.5% as of Q3FY23.

The near term demand environment remains challenging as the clients especially in select sectors remain cautious regarding the evolving macroeconomic situation and it has led to moderation in revenue growth performance. However, the order booking remains strong and provides strong revenue growth visibility. Revenue guidance of 13%-16% in cc terms for FY24 remains strong. Falling employee attrition is expected to support operating margin going ahead. We estimate revenue CAGR of 19.6% over FY23-26E with average EBIT margin of 14.9%. We maintain our BUY rating on the stock with revised target price of Rs 7,700/share at PER of 27x on FY26E EPS. The stock trades at PER of 26.9x/22.1x on FY25E/FY26E EPS.

Result Highlights

- Reported revenue of Rs 23,233mn (up 2.1% QoQ in INR terms, up 1.4% QoQ in USD terms). The cc growth was 1.8% QoQ. The growth was led by Banking Vertical (up 3.3% QoQ) and Manufacturing and Other Vertical (up 4.4% QoQ).
- EBIT margin increased by 191 bps QoQ to 13.8%, led by control on personnel cost.
- Reported order intake of \$354 mn in Q3FY24 against \$313 mn in Q2FY24. Total order book executable over the next 12 months is at US\$ 974 million (v/s \$935 mn in Q2FY24).
- Offshore revenue mix grew by 20 bps QoQ to 52.2%. 7 new clients were added during the quarter.
- Net employee addition stood at (31) employees during the quarter to close at 24,607 employees. LTM attrition declined by 90 bps QoQ to 12.1%.
- Declared interim dividend of Rs 19/- per share; record date 5th February, 2024.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	23,233	23,846	23,400	-2.6%	-0.7%
EBITDA	4,012	4,231	4,130	-5.2%	-2.9%
EBITDA Margin (%)	17.27%	17.74%	17.65%	-47 bps	-38 bps
Adjusted PAT	2,380	2,695	2,460	-11.7%	-3.3%

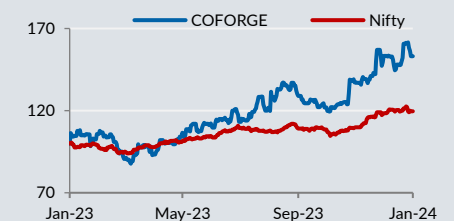
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 6,283
Target Price	: Rs 7,700
Potential Return	: + 22.6%

Stock data (as on January 22, 2024)

Nifty	21,572
52 Week h/l (Rs)	6789 / 3565
Market cap (Rs/USD mn)	396164 / 4767
Outstanding Shares (mn)	62
6m Avg t/o (Rs mn):	2,668
Div yield (%):	1.0
Bloomberg code:	COFORGE IN
NSE code:	COFORGE

Stock performance



	1M	3M	1Y
Absolute return	-0.1%	25.7%	53.2%

Shareholding pattern (As of Sep'23 end)

Promoter	0.0%
FII+DII	88.7%
Others	11.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	7,700	6,210

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	157.0	233.3	284.4
EPS (Old)	164.6	221.8	NA
%Change	-4.6%	5.2%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	92,551	109,256	131,192
YoY Growth	15.5%	18.0%	20.1%
EBIDTA	15,835	20,378	24,782
YoY Growth	12.7%	28.7%	21.6%
PAT	9,530	14,161	17,261
YoY Growth	15.3%	48.6%	21.9%
ROE	28.2%	33.7%	31.9%
EPS	157	233	284
P/E	40.0	26.9	22.1
BV	608	779	1,001
P/BV	10.3	8.1	6.3

PARTH GHIYA

Associate

parth.ghiya@ysil.in

Exhibit 2: Quarterly snapshot Console: Operating performance remained strong for the quarter

Particulars(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq %	9MFY24	9MFY23	yoy%
Sales (\$ mn)	251.7	264.4	271.8	278.1	282.0	12.0	1.4	832	737	12.8
Sales	20,558	21,700	22,210	22,762	23,233	13.0	2.1	68,205	58,446	16.7
EBITDA	3,615	4,076	3,316	3,473	4,012	11.0	15.5	10,801	9,977	8.3
EBITDA %	17.6	18.8	14.9	15.3	17.3	-32 bps	201 bps	15.8	17.1	-123 bps
Depreciation	624	717	757	772	811	30.0	5.1	2,340	1,868	25.3
EBIT	2,991	3,359	2,559	2,701	3,201	7.0	18.5	8,461	8,109	4.3
EBIT Margin %	14.5	15.5	11.5	11.9	13.8	-77 bps	191 bps	12.4	13.9	-147 bps
Other income	83	-487	-152	-295	-257	NA	NA	-704	-143	NA
PBT	3,074	1,546	2,242	2,406	2,944	-4.2	22.4	7,592	7,966	-4.7
Tax	715	379	485	528	516	-27.8	-2.3	1,529	1,682	-9.1
PAT after MI	2,282	1,148	1,653	1,809	2,380	4.3	31.6	5,842	5,790	0.9
NPM (%)	11.1	5.3	7.4	7.9	10.2	-86 bps	230 bps	8.6	9.9	-134 bps

Source: Company, YES Sec

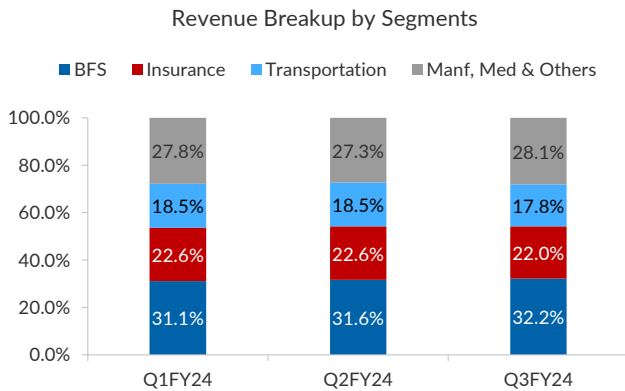
KEY CON-CALL HIGHLIGHTS

- 8th consecutive quarter to clock in \$300 Mn+ TCW with 1 large deal in BFS vertical, 1 in Insurance vertical and 1 in Travel vertical.
- 7 new logos were signed during the quarter. 8 Large deals were signed during 9MFY24.
- CY24 does not have significant increase in client budget when compared to CY23. BFS client budget has marginally increased by ~5% when compared to CY23.
- Travel vertical was bottomed out and is expected to rebound strongly in Q4FY24.
- Margins grew due to lower cost of ESOP, lower effective tax rate and improvement in operational efficiency.
- Furloughs during the quarter were higher than anticipated and had a negative impact of 50bps on overall margin.
- Repeat Business stood at 94% for Q3FY24 (vs 95% for Q2FY24).
- ~1,400 net employees added during 9MFY24. ESOP cost reached the normalized levels.
- CAPEX for the quarter stood at \$6.7 Mn. Investments in SG&A has increased to attract more customers and scaling Australia geography.
- Guided OCF / EBITDA in the range of 65% to 70% by end of FY24.
- Guided FY25 Margins expected to improve by ~100 bps on account of lower finance cost and improved employee pyramid.
- Company affirms to meet its lower end of revenue guidance of 13% to 16% organic growth in cc terms.

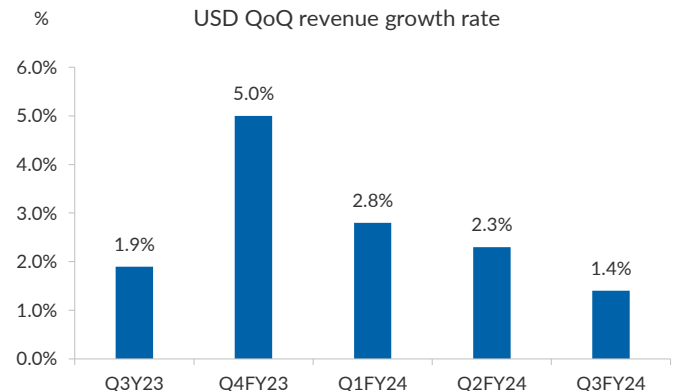
STORY IN CHARTS

Exhibit 3: Revenue growth was led by banking vertical and manufacturing & other vertical

Exhibit 4: Sequential revenue growth remained strong despite more than anticipated furloughs



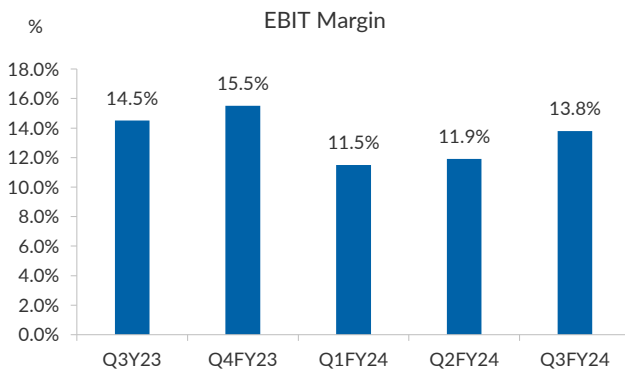
Source: Company, YES Sec



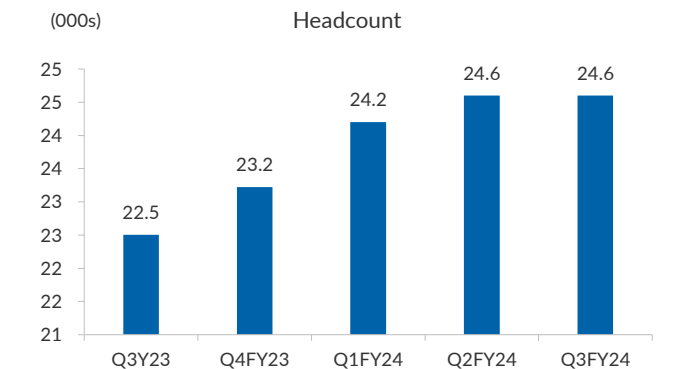
Source: Company, YES Sec

Exhibit 5: EBIT margin improved during the quarter

Exhibit 6: Employee addition remained muted during the quarter



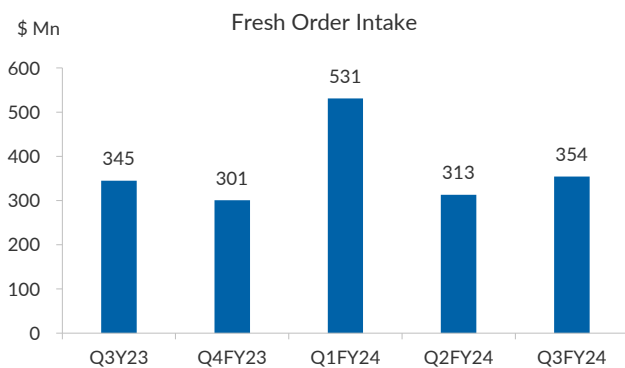
Source: Company, YES Sec



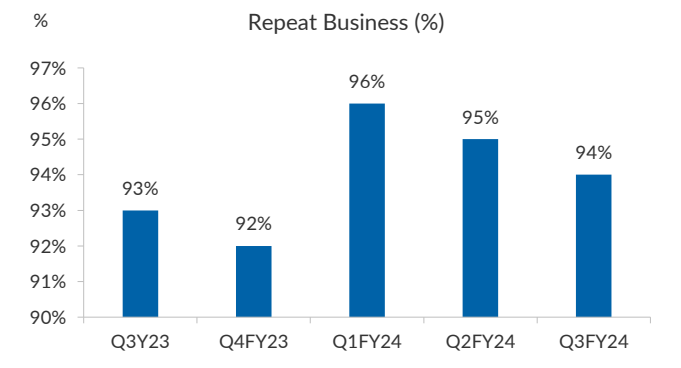
Source: Company, YES Sec

Exhibit 7: Saw strong order booking in the quarter

Exhibit 8: Repeat business at 90%+



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	606	609	611	611	611	611
Reserves & surplus	24,055	26,722	30,214	36,267	46,664	60,162
Shareholders' funds	24,661	27,331	30,825	36,878	47,275	60,773
Minority Interests and others	0	983	874	874	874	874
Non-current liabilities	1,947	9,438	7,742	7,633	7,552	7,498
Long-term borrowings	551	4,302	5,168	4,910	4,664	4,431
Other non-current liabilities	1,396	5,136	2,574	2,724	2,888	3,067
ST borrowings, Curr maturity	275	594	454	409	368	331
Other current liabilities	8,150	11,198	16,939	15,623	16,926	18,583
Total (Equity and Liabilities)	35,033	49,544	56,834	61,417	72,994	88,058
Non-current assets	14,096	27,335	30,770	30,248	29,470	30,052
Fixed assets (Net block)	5,982	10,127	11,500	10,637	9,493	9,682
Other non-current assets	6,530	15,517	17,498	17,856	18,240	18,650
Current assets	20,937	22,209	26,064	31,169	43,524	58,007
Cash & current investment	8,246	4,535	5,787	10,144	19,087	29,181
Other current assets	12,691	17,674	20,277	21,025	24,438	28,825
Total (Assets)	35,033	49,544	56,834	61,417	72,994	88,058

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	46,628	64,320	80,146	92,551	109,256	131,192
Operating expenses	(38,717)	(52,925)	(66,093)	(76,716)	(88,878)	(106,410)
EBITDA	7,911	11,395	14,053	15,835	20,378	24,782
Depreciation	(1,836)	(2,272)	(2,585)	(3,095)	(3,387)	(4,067)
EBIT	6,075	9,123	11,468	12,741	16,991	20,716
Other income	113	(266)	(630)	(654)	412	446
Exceptional & extraordinary	(226)	241	1,326	165	0	0
Profit before tax	5,962	9,098	12,164	12,252	17,403	21,162
Tax (current + deferred)	(1,302)	(1,468)	(2,061)	(2,288)	(3,050)	(3,709)
Profit / (Loss) for the period	4,660	7,630	10,103	9,964	14,353	17,453
P/L of Associates, Min Int, Pref Div	(236)	(530)	(513)	(269)	(192)	(192)
Reported Profit / (Loss)	4,424	7,100	9,590	9,695	14,161	17,261
Adjusted net profit	4,650	6,859	8,264	9,530	14,161	17,261

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	5,962	9,098	12,164	12,252	17,403	21,162
Depreciation	1,836	2,272	2,585	3,095	3,387	4,067
Change in working capital	(737)	(1,935)	3,138	(2,065)	(2,109)	(2,731)
Total tax paid	(1,650)	(2,185)	(3,265)	(2,551)	(3,332)	(4,010)
Cash flow from operations (a)	5,411	7,250	14,622	10,731	15,349	18,488
Capital expenditure	(1,113)	(6,417)	(3,958)	(2,232)	(2,243)	(4,255)
Change in investments	(1,571)	17	(81)	18	18	17
Others	(67)	(1,216)	(3)	(95)	(102)	(109)
Cash flow from investing (b)	(2,751)	(7,616)	(4,042)	(2,309)	(2,328)	(4,347)
Free cash flow (a+b)	2,660	(366)	10,580	8,421	13,021	14,141
Equity raised/(repaid)	(19)	3	2	0	0	0
Debt raised/(repaid)	778	4,070	726	(304)	(286)	(270)
Dividend (incl. tax)	(686)	(3,152)	(3,534)	(3,642)	(3,763)	(3,763)
Others	(3,645)	(4,142)	(6,522)	(119)	(28)	(13)
Cash flow from financing (c)	(3,572)	(3,221)	(9,328)	(4,065)	(4,078)	(4,046)

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	11.4	37.9	24.6	15.5	18.0	20.1
EBITDA Growth	9.9	44.0	23.3	12.7	28.7	21.6
EBIT Growth	11.1	50.2	25.7	11.1	33.4	21.9
Net Profit Growth	(3.5)	60.5	35.1	1.1	46.1	21.9
Profitability Ratios(%)						
EBITDA Margin	17.0	17.7	17.5	17.1	18.7	18.9
EBIT margin	13.0	14.2	14.3	13.8	15.6	15.8
Net Profit margin	10.0	10.7	10.3	10.3	13.0	13.2
RoA	17.5	21.6	21.6	21.5	25.3	25.7
RoE	19.1	26.4	28.4	28.2	33.7	31.9
RoCE	22.8	28.0	29.3	29.7	33.4	33.0
Liquidity Ratios						
Net debt/Equity (x)	(0.3)	0.0	(0.0)	(0.1)	(0.3)	(0.4)
Current ratio (x)	2.5	1.9	1.5	1.9	2.5	3.1
Quick ratio (x)	2.5	1.9	1.5	1.9	2.5	3.1
Valuation Ratios						
PER(x)	NA	NA	46.1	40.0	26.9	22.1
PCE(x)	NA	NA	35.2	30.2	21.7	17.9
Price/Book(x)	NA	NA	12.4	10.3	8.1	6.3
EV/EBITDA(x)	NA	NA	27.1	23.8	18.0	14.4

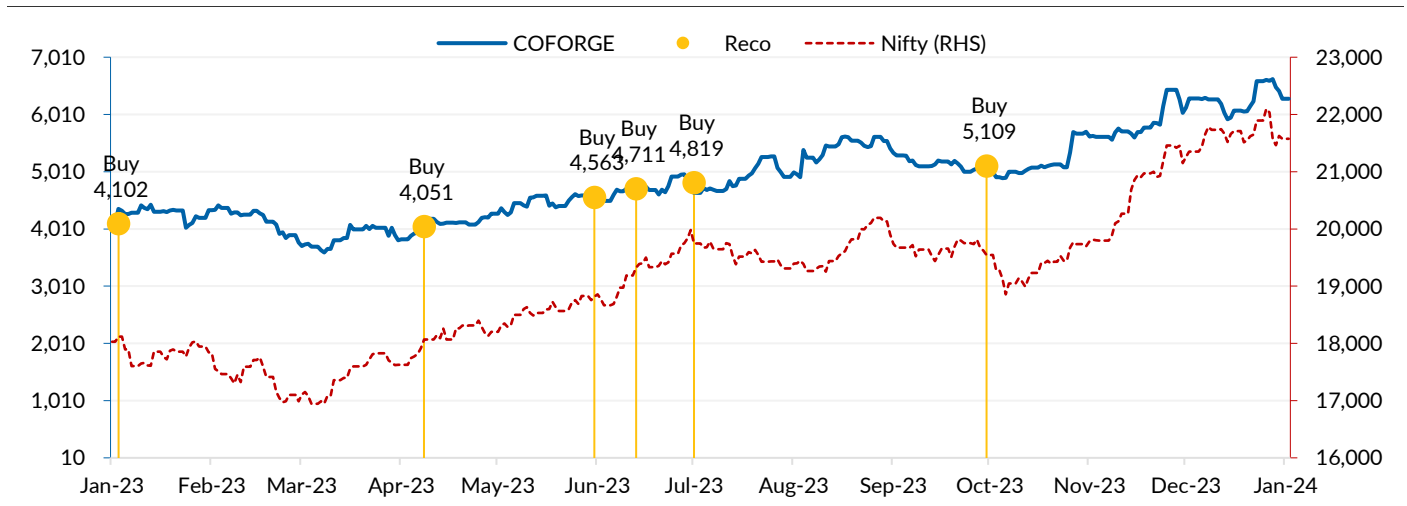
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	10.0	10.7	10.3	10.3	13.0	13.2
Asset turnover (x)	1.3	1.5	1.5	1.6	1.6	1.6
Leverage factor (x)	1.4	1.6	1.8	1.7	1.6	1.5
Return on Equity(%)	19.1	26.4	28.4	28.2	33.7	31.9

Source: Company, YES Sec

Recommendation Tracker



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Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
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