

Coforge

Eking out growth amidst challenges

BFS shines despite unusually high furloughs

Coforge (COFORGE IN) reported in-line revenue growth at 1.4% QoQ USD as also in-line EBIT margin at 13.8%. The traction came in from North America and RoW within geographies and BFS among verticals. Pipeline continued to be robust at USD 974mn, up 4% QoQ. Within service lines, BPS saw weakness, while growth was led by cloud (up 4% QoQ), Data integration (+7%) and ADM (+4%). EBIT margin rose 200bps QoQ, supported by increased offshoring, increased fixed-price contracts and 70bps rise in gross margin. The print looks robust and near-term visibility intact with robust executable order book.

Large deal momentum continues to prop executable orderbook

Pipeline is robust with executable order book at an all-time high of USD 974mn, up 15.8% YoY. Fresh order intake at USD 354mn rose 13% QoQ, resulting in eighth consecutive quarter of USD 300mn+ order intake. COFORGE signed three large deals and seven new logos in Q3. The order intake was particularly robust for Europe (up by USD34mn QoQ).

Rosy outlook

Organic CC revenue growth YTD stood at 14.7%. The management maintained its FY24 growth guidance at 13-16% YoY CC. Margin may grow on account of cost reversal in the absence of furloughs (worth ~50bps), with FY24 exit margin in line with FY23. SG&A investments may peak out at 15%, resulting in significantly better margin in FY25 YoY. Exit rate for margin is expected to be ~20% for FY24E. Utilization may hover around 81%.

Valuations: Reiterate Buy; TP raised to INR 8,100

FY24 revenue growth guidance (of 13-16% in CC) is intact, on TCV of USD 974mn executable orderbook. We retain our positive stance given: 1) improving executable orderbook and steady large deal wins, 2) consistent revenue growth and 3) traction in BFS. We marginally tweak FY25E/26E earnings estimates ~1-4% each. Maintain **Buy** with higher TP of INR 8,100 from INR 6,230, on 33.2x Dec-25E EPS (five-year average +1 sd; versus 27.3x earlier).

Rating: Buy

Target Price: INR 8,100

Upside: 29%

CMP: INR 6,278 (as on 20 January 2024)

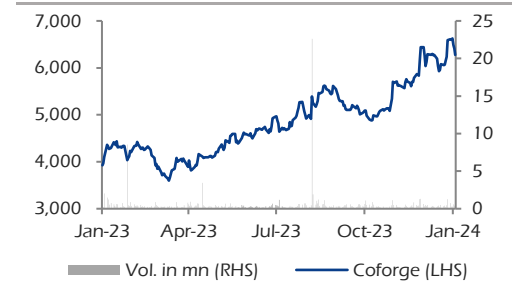
Key data*

Bloomberg /Reuters Code	COFORGE IN/COFO.BO
Current /Dil. Shares O/S (mn)	61/62
Mkt Cap (INR bn/USD mn)	388/4,665
Daily Volume (3M NSE Avg)	412,819
Face Value (INR)	10

1 USD = INR 83.1

Note: *as on 20 January 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Promoter	40.0	30.2	26.6	0.0
Institutional Investors	48.0	57.6	62.0	88.7
Other Investors	3.3	3.5	3.3	3.9
General Public	8.7	8.7	8.1	7.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	10.4	9.3	19.7
Coforge	25.6	30.3	53.0
LTIMindtree	4.4	13.5	32.5
Mphasis	19.2	16.8	27.8

Source: Bloomberg

YE March (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue (USD mn)	282.0	251.7	12.0	278.1	1.4
Revenue (INR mn)	23,233	20,558	13.0	22,762	2.1
Operating expenditure	19,048	16,761	13.6	18,766	1.5
Adj. EBITDA*	4,185	3,797	10.2	3,996	4.7
Depreciation	811	624	30.0	772	5.1
EBIT**	3,201	2,991	7.0	2,705	18.3
PBT	2,944	3,074	(4.2)	2,410	22.2
Total Tax	516	715	(27.8)	528	(2.3)
Adjusted PAT	2,428	2,359	2.9	1,882	29.0
APAT after MI	2,380	2,282	4.3	1,814	31.2
Reported PAT	2,380	2,282	4.3	1,810	31.5
Reported EPS	38.9	36.7	6.1	29.0	34.3

Note: * Adjusted EBITDA excludes ESOP and acquisition related cost; **EBIT includes RSU cost

Key Financials											
YE March	Revenue (INR bn)	YoY (%)	EBITDA (INR bn)	EBITDA Margin (%)	Adj PAT (INR bn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	80.1	15.6	14.06	17.5	6.9	1.3	113.7	22.5	39.4	55.4	27.4
FY24E	92.6	12.6	15.81	17.1	9.2	32.5	150.5	25.9	38.2	41.9	24.2
FY25E	106.9	15.1	19.94	18.6	13.1	41.9	213.6	30.8	43.1	29.5	18.9
FY26E	124.2	16.1	23.16	18.6	15.7	12.6	256.9	31.1	42.5	24.5	16.0

Note: Pricing as on 20 January 2024; Source: Company, Elara Securities Estimate

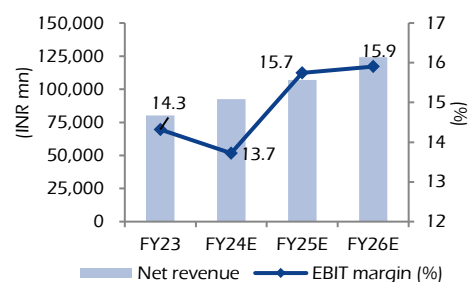
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Consolidated Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	80,146	92,608	106,929	124,228
EBITDA	14,062	15,808	19,939	23,164
Less :- Depreciation & Amortization	2,585	3,099	3,100	3,407
EBIT	11,477	12,709	16,840	19,757
Add:- Non operating Income	(630)	(653)	487	922
PBT	9,521	12,056	17,326	20,679
Less :- Taxes	2,061	2,474	3,639	4,343
Adjusted PAT	7,460	9,582	13,688	16,337
Minorities	513	378	628	628
Reported PAT	6,947	9,204	13,059	15,708
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	611	611	611	611
Reserves	30,214	34,987	41,760	49,906
Borrowings	3,382	3,382	3,382	3,382
Minority Interest	877	1,255	1,883	2,511
Other Liabilities	583	583	583	583
Total Liabilities	35,667	40,818	48,219	56,994
Gross Block	13,844	15,344	16,944	18,544
Less:- Accumulated Depreciation	7,024	10,123	13,223	16,629
Net Block	6,820	5,221	3,721	1,915
Cash & cash equivalents	6,025	9,463	14,911	21,322
Net Working Capital	19,016	22,327	25,780	29,951
Other Assets	3,806	3,806	3,806	3,806
Total Assets	35,667	40,818	48,219	56,994
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non-cash items	9,297	13,334	16,301	18,821
Add/Less : Working Capital Changes	(1,159)	(3,311)	(3,453)	(4,171)
Operating Cash Flow	9,505	10,022	12,848	14,650
Less:- Capex	(1,537)	(1,500)	(1,600)	(1,600)
Free Cash Flow to Firm	7,968	8,522	11,248	13,050
Financing Cash Flow	(5,232)	(4,431)	(6,287)	(7,562)
Investing Cash Flow	(2,716)	(2,153)	(1,113)	(678)
Net change in Cash	1,557	3,438	5,448	6,411
Ratio Analysis	FY23	FY24E	FY25E	FY26E
Income Statement Ratios (%)				
Revenue Growth	15.6	12.6	15.1	16.1
EBITDA Growth	23.4	12.4	26.1	16.2
PAT Growth	1.3	32.5	41.9	20.3
EBITDA Margin	17.5	17.1	18.6	18.6
Net Margin	8.7	9.9	12.2	12.6
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
ROE (%)	22.5	25.9	30.8	31.1
ROCE (%)	39.4	38.2	43.1	42.5
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	113.7	150.5	213.6	256.9
EPS Growth (%)	1.0	32.4	41.9	20.3
Book Value	113.7	150.5	213.6	256.9
DPS (INR/Share)	45.5	60.2	85.4	102.7
P/E Ratio (x)	55.4	41.9	29.5	24.5
EV/EBITDA (x)	27.4	24.2	18.9	16.0
Price/Book (x)	55.4	41.9	29.5	24.5
Dividend Yield (%)	0.7	1.0	1.4	1.6

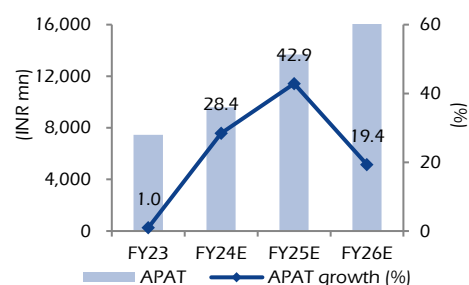
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Revenue growth & EBIT margin trend



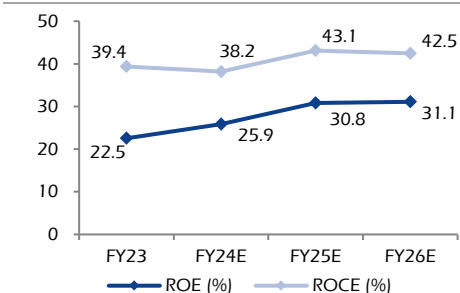
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Earnings call – Highlights

Demand environment:

- Demand environment is depressed, with aggregate spend flat and pricing super competitive. COFORGE is focusing on legacy modernization in insurance, cloud migration, digital transformation, and supplier consolidation.
- Budgets for CY24 may be similar to CY23.
- COFORGE achieved organic YTD growth of 14.7% in CC terms. Three large deals contributed to YTD 14.7% growth in the deal pipeline. Three large deals include one net new, one incremental revenue, and 0.5 new deals.
- COFORGE is the fastest-growing IT company organically, and the guidance is maintained at 13-16% YoY revenue growth in constant currency.

Vertical- and geography-wise commentary

- Contrary to the results announced yet for peers, COFORGE's BFS was up 4% QoQ. Insurance was flat. Transportation was down 1.8% QoQ. BFS experienced unusually high furloughs.
- BFS deals are centered around AI, ESG (Environmental, Social, and Governance), and Cybersecurity, while TTHL (Travel, Transportation, Hospitality, and Logistics) deals involve testing.
- BFS is seeing budget tightening, with focus on agility in software delivery. Expect double-digit growth in APAC.
- Travel saw mixed demand, with airlines and airports leading spending in deals centered around cost takeout, IT productization, cybersecurity and cloud.
- Europe is a significant player in Banking and Travel. North America lacks presence the public sector which is where Coforge is present in Europe
- Top travel clients in North America have challenges.
- APAC, particularly ASEAN and ANZ, performed well in BFS, and the Duckcreek partnership in Australia has been fruitful.

Margin and employee update

- EBIT margin came in lower at 13.8% (up 200bps QoQ) but slightly below our estimate of 14% and street's estimate of 14.2%. Offshoring was up by 20bps QoQ to 52.2%. Fixed-price contracts rose 200bps QoQ to 51% of revenue in Q3. Utilization was down 60bps QoQ.
- COFORGE is investing in SG&A, focusing on Healthcare, Communications, Media, and Technology (CMT), and Retail as business verticals. SG&A peaked at 15% in Q3FY24.
- Headcount declined by 31 QoQ, with a 60bps drop in utilization (to 79.4% in Q3FY24).

Miscellaneous

- Operating cash flow (OCF)-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio was 70% in Q3, with capex at USD 6.7mn.
- COFORGE has USD 41mn worth of offshore debt (non-convertible bonds), with 9.9% cost of capital. The management is planning to pay that with working capital, with cost 350bps lower than the current rate. Hence, the interest rate may pare from the next financial year.
- Capital allocation policy remains the same. Dividends may continue to be disbursed as usual.
- Within service lines, BPS saw weakness while growth was led by cloud (up 4% QoQ), Data integration (+7%) and ADM (+4%).
- Q3 had hedging losses of INR 50mn, versus INR 107mn in Q2. This was contrary to hedging gains estimated for Q3.
- Attrition was at 12.1%, down 90bps QoQ.
- The Board announced an interim dividend of INR 19/share.
- DSO at 63 days was down by one day QoQ.

Exhibit 1: Operating metrics

(INR)	Q3FY24 (% contribution to revenue)	QoQ (%)	YoY (%)
Revenue by geography			
<i>North America</i>	46.6	(3.7)	7.0
<i>Europe</i>	40.0	5.2	12.2
<i>RoW</i>	13.4	15.9	44.2
Revenue by vertical			
Banking and Financial Services	32.2	4.0	17.0
Insurance	22.0	(0.6)	12.5
Transportation	17.8	(1.8)	4.2
Other	28.1	5.1	15.9
Revenue mix onsite/offshore			
Offshore	52.2	10.2	16.8
Onsite	47.8	1.9	9.1
Client concentration			
<i>Top-5</i>	22.7	(1.4)	7.3
Non top-5 client	77.3	3.1	14.8
<i>Top-10</i>	34.3	(0.5)	6.8
Revenue mix service lines			
Product Engineering	7.8	(10.5)	(11.0)
Intelligent Automation	11.3	(4.7)	8.2
Data Integration	25.7	7.1	21.5
Cloud and Infrastructure management	18.9	4.3	14.8
Application Development and Maintenance	27.1	4.0	14.7
Business Process Management	9.2	(1.2)	14.3
		QoQ	YoY
Number of employees	24,607	(31)	2,102
DSO (days)	63	(1)	(10)
		bps	bps
Attrition (%)	12	(90)	(370)
Utilization	79	(60)	(90)
	Q3	Q2	Q3
	FY24	FY24	FY23
Significant new customer addition			
US	3	5	5
Europe	2	2	2
ROW	2	1	4
Total	7	8	11
Fresh order intake (USD mn)			
USA	110	118	208
Europe	172	138	113
ROW	72	57	24
Total	354	313	345
Executable order in next 12 months (USD mn)			
	974	935	841

Source: Company, Elara Securities Research

Exhibit 2: Valuations

(INR)	
Current trailing twelve months (TTM) EPS	114
Current market price (CMP)	6,278
Target EPS	244.1
Target EPS period	Dec'24E-Dec'25E
Target multiple (x)	33.2
Target price	8,100
Upside (%)	29.0

Note: pricing as on 20 January 2024; Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Old			New			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY25E
Revenue (USD mn)	1,124	1,280	1,484	1,128	1,298	1,507	0.4	1.4	1.6
YoY growth (%)	12.2	13.9	16.0	12.6	15.1	16.1			
Revenue	92,713	106,474	123,478	92,608	106,929	124,228	(0.1)	0.4	0.6
EBITDA (post RSU)	15,806	20,160	23,385	15,808	19,939	23,164	0.0	(1.1)	(0.9)
EBITDA margin (%)	17.0	18.9	18.9	17.1	18.6	18.6			
Net profit	9,243	12,886	15,133	9,204	13,059	15,708	(0.4)	1.3	3.8
EPS (INR)	151.1	210.7	247.5	150.5	213.6	256.9	(0.4)	1.3	3.8
TP (INR)			6,230			8,100			30.0

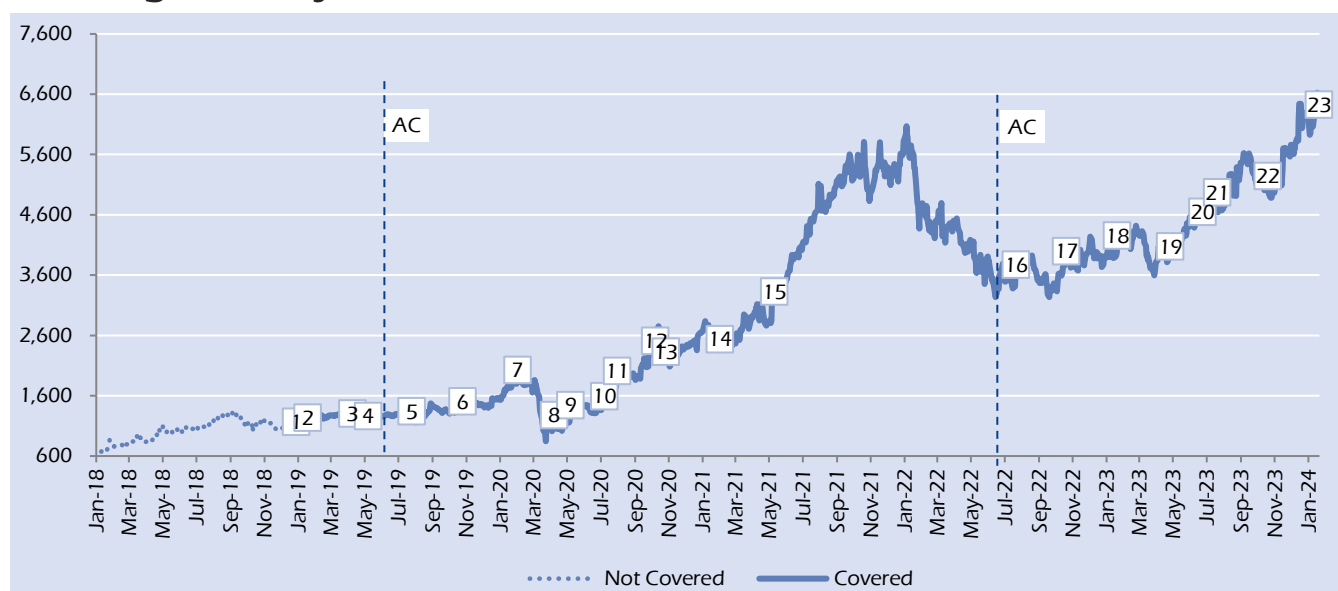
Source: Elara Securities Estimate

Exhibit 3: Peer financials

	Ticker	Currency	Mcap	Rating	Price	TP	Upside	Turnover' 23	FY23-26E		EV/sales		P/E		Div. yield (%)		ROE (%)	
									Sales CAGR %	EPS CAGR %	FY24E (x)	FY25E (x)	FY24E (x)	FY25E (x)	FY24E	FY25E	FY24E	FY25E
Large Indian IT services cos.																		
TCS	TCS IN	INR	170	Buy	3,861	4,430	15	27,927	5.8	9.4	5.7	5.3	30.5	28.1	1.3	1.4	47.9	42.9
Infosys	INFO IN	INR	82	Sell	1,649	1,260	(24)	18,212	4.7	6.3	4.2	4.0	27.8	26.5	1.8	1.9	29.4	29.1
Wipro	WPRO IN	INR	30	Reduce	478	450	(6)	11,232	1.9	6.8	2.4	2.3	22.3	20.5	0.4	0.5	12.7	12.3
HCL Technologies	HCLT IN	INR	50	Sell	1,544	1,430	(7)	12,586	8.1	9.2	3.6	3.3	26.6	23.5	2.8	3.2	23.6	25.9
Tech Mahindra	TECHM IN	INR	16	Buy	1,386	1,360	(2)	6,607	2.8	11.4	2.5	2.3	44.2	21.8	0.8	1.7	9.4	17.3
Tier-1 IT AVG								15,313	4.6	8.6	3.7	3.4	30.3	24.1	1.4	1.7	24.6	25.5
Tier-1 IT Median								12,586	4.7	9.2	3.6	3.3	27.8	23.5	1.3	1.7	23.6	25.9
Mid-sized Indian IT services cos.																		
LTIMindtree	LTIM IN	INR	20	Buy	5,657	6,570	16	4,106	10.4	16.8	4.4	4.0	34.0	26.0	1.2	1.5	27.6	31.0
Mphasis	MPHL IN	INR	6	Accumulate	2,587	2,380	(8)	1,712	4.6	6.3	3.4	3.1	29.8	27.5	1.8	2.0	19.5	19.4
Persistent	PSYS IN	INR	7	Accumulate	7,922	8,300	5	1,036	14.4	23.2	6.0	5.1	53.4	41.9	0.7	0.8	23.4	24.2
Coforge	COFORGE IN	INR	5	Buy	6,278	8,100	29.0	1,002	14.6	23.8	4.1	3.5	41.6	29.8	2.3	3.3	25.9	30.5
eclerx	ECLX IN	INR	2	Accumulate	2,660	2,500	(6)	333	11.3	18.9	4.2	3.6	24.1	18.6	0.7	0.9	28.3	32.1
Sonata Software	SSOF IN	INR	3	NR	761	NA	-	897	20.3	20.3	2.3	2.0	40.3	32.2	1.3	1.6	36.7	38.4
Happiest Minds	HAPPSTMN IN	INR	2	NR	884	NA	-	172	16.6	11.2	7.8	6.6	55.6	44.4	0.0	0.0	23.3	23.3
Firstsource solutions	FSOL IN	INR	2	NR	202	NA	-	721	8.0	10.6	2.4	2.2	26.5	21.7	2.1	2.4	15.7	17.9
Birlasoft	BSOFT IN	INR	3	NR	804	NA	-	578	11.4	44.6	4.0	3.5	38.5	32.0	0.8	0.9	21.8	22.4
Zensar Tech	ZENT IN	INR	2	NR	562	NA	-	584	5.9	38.0	2.3	2.1	20.7	20.3	1.4	1.5	19.0	16.9
Intellect design arena	INDA IN	INR	2	NR	941	NA	-	269	14.3	27.8	4.9	4.4	37.6	29.0	0.3	0.4	16.1	17.9
Mastek	MAST IN	INR	1	NR	2,801	NA	-	309	17.7	14.9	2.9	2.5	29.3	21.8	1.1	0.9	16.5	19.4
Mid-size IT AVG								977	12.4	21.8	4.1	3.5	36.0	28.8	1.1	1.4	22.8	24.4
Mid-size IT Median								653	12.7	19.6	4.0	3.5	35.8	28.2	1.1	1.2	22.6	22.9
Indian IT ER&D cos.																		
L&T Tech	LTTS IN	INR	7	Sell	5,416	4,240	(22)	990	14.3	11.9	5.5	5.0	44.0	39.0	0.8	0.9	25.5	24.8
Cyient	CYL IN	INR	3	Buy	2,243	2,500	11	746	14.1	27.0	3.4	2.9	27.7	23.9	1.8	2.1	24.1	24.7
Tata Elxsi	TELX IN	INR	6	Accumulate	8,290	8,490	2	390	15.4	14.4	13.8	11.5	63.2	53.8	0.6	0.7	40.3	33.3
KPIT Tech	KPIT IN	INR	5	Buy	1,524	1,480	(3)	418	24.6	37.1	8.5	7.1	71.9	56.5	0.5	0.6	31.4	32.5
Tata technologies	NA	INR	6	NR	1,153	NA	-	532	10.7	13.7	11.0	9.8	83.2	72.6	1.0	1.1	21.0	23.0
Mid-tier IT AVG								615.1	15.8	20.8	8.5	7.3	58.0	49.2	0.9	1.1	28.5	27.7
Mid-tier IT Median								532	14.3	14.4	8.5	7.1	63.2	53.8	0.8	0.9	25.5	24.8
Global peers																		
IBM	IBM US	USD	157	NA	171	NA		60,530	2.5	122.5	3.3	3.2	18.1	17.3	3.9	4.0	36.2	32.3
Accenture	ACN US	USD	243	NA	364	NA		61,594	7.3	10.4	3.6	3.4	29.8	27.2	1.4	1.5	28.2	28.2
Cognizant	CTSH US	USD	39	NA	77	NA		19,428	0.9	7.2	1.9	1.9	17.5	16.7	1.5	1.6	17.0	16.6
Capgemini	CAP FP	EUR	37	NA	197	NA		23,167	4.5	14.5	1.7	1.6	15.6	15.0	1.9	2.0	18.5	18.0
Endava	DAVA US	USD	5	NA	79	NA		871	16.2	20.4	4.4	3.8	37.6	27.2	-	-	14.5	18.3
EPAM	EPAM US	USD	17	NA	300	NA		4,825	0.6	23.1	3.3	3.2	29.1	28.3	-	-	19.0	16.4
Globant	GLOB US	USD	10	NA	232	NA		1,780	17.8	28.5	4.7	4.0	40.6	35.1	-	-	14.1	14.7
NAGARRO SE	NA9 GY	USD	1	NA	92	NA		902	10.4	-5.1	1.6	1.5	20.8	17.0	-	-	32.0	30.5
Global IT AVG								24,599	7.1	32.4	3.3	3.0	26.9	23.8	2.2	2.3	21.1	20.6
Global IT Median								19,428	4.5	20.4	3.3	3.2	29.1	27.2	1.7	1.8	18.5	18.0

Note: Pricing as on 20 January 2024; Source: Elara Securities Estimate

Coverage History



AC – Analyst Change

	Date	Rating	Target Price	Closing Price
14	29-Jan-2021	Accumulate	INR 2,551	INR 2,393
15	6-May-2021	Accumulate	INR 3,510	INR 3,396
16	22-Jul-2022	Buy	INR 4,930	INR 3,726
17	20-Oct-2022	Buy	INR 5,370	INR 3,880
18	20-Jan-2023	Buy	INR 5,280	INR 4,102
19	26-Apr-2023	Buy	INR 5,360	INR 3,944
20	23-Jun-2023	Buy	INR 5,490	INR 4,499
21	23-Jun-2023	Buy	INR 6,000	INR 4,819
22	19-Oct-2023	Buy	INR 6,230	INR 5,109
23	20-Jan-2024	Buy	INR 8,100	INR 6,278

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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