

## One of the lowest attrition in industry...

**About the stock:** Coforge offers system integration, apps & BPO services to BFSI, travel & healthcare verticals.

- Revenues grew at 18.1% CAGR in the past five years
- Healthy OCF, EBITDA (~75%) and robust return ratios (RoCE > 20%)

**Q4FY22 Results:** Coforge reported robust Q4FY22 results on the revenue front.

- Dollar revenues increased 4.9% QoQ (5% QoQ CC growth)
- EBITDA margin improved 68 bps QoQ to 18.9%
- Guiding for 20% revenue growth in FY23

**What should investors do?** Coforge's share price has grown by ~7.6x over the past five years (from ~₹ 476 in May 2017 to ~₹ 3656 levels in May 2022).

- We revise our rating on the stock from HOLD to **BUY**

**Target Price and Valuation:** We value Coforge at ₹ 4370 i.e. 25x P/E on FY24E EPS

### Key triggers for future price performance:

- Increase in deal size; signed a US\$105 mn BFS deal (for four years), insurance US\$20 million (three years) & healthy order book to drive growth
- Bottoming out of travel vertical (in US), preferred partnership with Fortune 500 insurance & Tier 1 banking companies, recent acquisition and aggressive hiring to drive 19.1% revenue CAGR over FY22-24E
- A 40 bps improvement in margins over FY22-24E due to offshoring, higher margins in acquired company, reversal of travel discount and growth

**Alternate Stock Idea:** Apart from Coforge, in our IT coverage we also like LTI.

- LTI and Mindtree to create a large entity of US\$3.5 bn revenue through merger. The combined entity will enjoy scale benefit, large order wins etc
- HOLD with a target price of ₹ 4,990

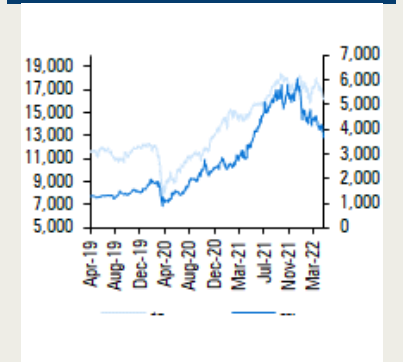
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	22,727
Total Debt (₹ Crore)	336.5
Cash & Investment (₹ Crore)	453.5
EV (₹ Crore)	22,610
52 week H/L	6133/ 3243
Equity capital	60.9
Face value	10.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	56	50	50	40
FII	19	21	19	22
DII	15	18	20	25
Public	10	11	11	12

### Price Chart



### Recent event & key risks

- Guiding for 20% revenue growth in FY23
- **Key Risk:** (i) Deceleration in deal pipeline, (ii) Lower than expected margins.

### Research Analyst

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### Key Financial Summary

Financials	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	4,184	4,663	6,432	18.1	7,972	9,123	19.1%
EBITDA	720	786	1,115	18.1	1,523	1,779	26.3%
EBITDA Margins (%)	17.2	16.9	17.3		19.1	19.5	
Net Profit	444	456	662	12.7	918	1,087	28.2%
EPS (₹)	71.4	73.3	106.5		147.8	175.0	
P/E	51.2	49.9	34.3		24.7	20.9	
RoNW (%)	18.5	18.5	24.2		28.4	28.3	
RoCE (%)	23.0	23.3	25.6		31.5	31.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- US\$ revenues grew 4.9% QoQ to US\$232.4 million (5% QoQ growth in CC) while rupee revenues grew 5.1% QoQ to ₹ 1,732 crore. For FY22 The company reported growth of 37.6% in CC terms (organic + inorganic) vs guidance of 37% given. The company is now guiding 20% revenue growth in FY23 in CC terms. The company is aspiring to reach US\$2 bn revenues in the medium term. The company does not see any impact of current geopolitical issues as well as macro headwinds. Hence, they are not baked in the revenue guidance.
- It reported adjusted EBITDA margins of 18.9% in FY22 vs. guided range of 18.5-19%. The company has maintained adjusted EBITDA margin band of 18.5-19% for FY23
- Geography wise, the revenue growth for the quarter was driven by EMEA regions, which reported 23.9% QoQ growth while America region reported 1.8% QoQ decline. Vertical wise, BFSI reported 2.3% QoQ revenue growth while Transport vertical witnessed sharp recovery and reported growth of 15.2% QoQ for Q4.
- The company indicated that order intake was US\$301 mn for the quarter, which was up 22% QoQ and 50% YoY. For FY22, order intake was robust at US\$1.15 bn, which was up 47.2% vs. FY21
- The company won 11 large deals in FY22, which includes one US\$100mn+ deal with large European bank and three US\$50mn+ deals (one in Europe and one in BFSI space). The company indicated that they continue to chase deals as in case of any adverse impact on tech spending, smaller deals are the first one to get slipped. The company expects to add at least two large deals in FY23
- Coforge have witnessed sharp rebound in travel vertical in Q4 and the company expects the travel vertical to accelerate its growth momentum in the next fiscal year. The company expects elevated spending in the travel industry on new areas such as cloud transformation, cyber security and touch less travel, etc
- Coforge also indicated that they will continue to hire aggressively in sales & marketing in FY23 as well. For FY22, its sales and marketing headcount increased to 288 vs.188 and the company also indicated their EBITDA margin guidance baked in higher spend on S&M
- The management indicated following margin levers: i) continued focus on off-shoring, the company's revenue mix from offshoring has increased to 44% vs 38% in FY21 ii) Continued focus on pyramid optimisation, the company added 1.6K freshers in FY22 and planning to elevate fresher hiring in FY23. lii) recovery in travel business which will drive the growth iv) better performance of product business (advantage GO) v) The company also indicated pricing albeit minor lever for margin improvement in the subsequent years
- Insurance business reported 20% revenue growth in FY22. The company expects continued strong growth from this vertical in FY23 as well. Some of the growth drivers for this business segment are core platform modernisations, automation of claim processing, etc

**Exhibit 1: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue in USD	232.4	228.2	172.4	34.8	221.6	4.9	Revenue growth of 5% QoQ in CC, driven by BFSI and recovery in travel vertical
Revenue	1,742.9	1,718.7	1,261.5	38.2	1,658.1	5.1	
Employee expenses	1,162.0	1,151.5	858.0	35.4	1,121.0	3.7	
Gross Margin	580.9	567.2	403.5	44.0	537.1	8.2	
Gross margin (%)	33.3	33.0	32.0	134 bps	32.4	94 bps	
SG&A expenses	251.6	240.6	191.3	31.5	235.1	7.0	
EBITDA	329.3	326.6	212.2	55.2	302.0	9.0	
EBITDA Margin (%)	18.9	19.0	16.8	207 bps	18.2	68 bps	Adjusted margins for the quarter ( adjusted for ESOP and acquisition related costs) was at 20.6%, up 90 bps QoQ
Depreciation & amortisation	58.4	55.0	44.9	30.1	56.6	3.2	
EBIT	270.9	271.6	167.3	61.9	245.4	10.4	
EBIT Margin (%)	15.5	15.8	13.3	228 bps	14.8	74 bps	
Other income (less interest)	-11.9	-12.2	10.9	-209.2	-12.2	-2.5	
PBT	259.0	259.4	178.2	45.3	233.2	11.1	
Tax paid	34.2	41.5	40.8	-16.2	36.0	-5.0	
PAT	207.7	204.4	133.0	56.2	183.7	13.1	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,581	7,972	5.2	8,585	9,123	6.3	Revenue increased on continued strong order book
EBITDA	1,470.8	1,523	3.5	1,802.8	1,779	-1.3	
EBITDA Margin (%)	19.4	19.1	-30 bps	21.0	19.5	-150 bps	EBITDA margins tweaked downward as per guided range
PAT	864.6	918	6.2	1,094	1,087	-0.6	
EPS (\$)	139.2	147.8	6.2	176.1	175.0	-0.6	

Source: Company, ICICI Direct Research

## Key Metrics

**Exhibit 3: Geography-wise break-up**

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue by geography (%)</b>					
America	46.0	52.0	52.0	53.3	49.9
EMEA	40.0	35.0	33.0	33.7	39.8
RoW	14.0	13.0	15.0	13.0	10.3
<b>Growth QoQ (%)</b>					
America	0.7	30.9	6.6	6.7	-1.8
EMEA	19.1	1.4	0.5	6.3	23.9
RoW	0.1	7.6	23.0	-9.7	-16.9

Source: Company, ICICI Direct Research

*EMEA drives growth*

**Exhibit 4: Vertical wise break-up**

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue by verticals (%)</b>					
Banking & financial services	17.0	21.0	24.0	28.4	27.7
Insurance	31.0	31.0	29.0	27.8	25.7
Transport	19.0	19.0	19.0	18.3	20.1
Others	33.0	29.0	28.0	25.4	26.5
<b>Growth QoQ (%)</b>					
Banking & financial services	1.3	43.1	21.8	23.2	2.3
Insurance	3.9	15.8	-0.3	-0.2	-3.0
Transport	1.9	15.8	6.6	0.3	15.2
Others	17.9	1.8	2.9	-5.5	9.4

Source: Company, ICICI Direct Research

*Growth led by BFSI as well recovery in travel vertical*

**Exhibit 5: Client & human resource matrix**

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Client metrics</b>					
Between 1 to 5 million	88	95	92	94	100
Between 5 to 10 million	16	20	22	21	19
Above 10 million	11	15	16	18	18
<b>Headcount, Utilization, Attrition</b>					
Total Employees	12,391	20,491	20,786	22,130	22,500
Utilization	81.0	77.0	78.5	77.1	76.1
Attrition	10.5	12.6	15.3	16.3	17.7

Source: Company, ICICI Direct Research

*LTM Attrition grew by 140bps QoQ to 17.7%*

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>4,663</b>	<b>6,432</b>	<b>7,972</b>	<b>9,123</b>
Growth (%)	11.4	37.9	23.9	14.4
COGS (employee expenses)	3,169	4,374	5,301	6,066
S,G&A expenses	707	943	1,148	1,277
Total Operating Expenditure	3,876	5,317	6,449	7,344
<b>EBITDA</b>	<b>786</b>	<b>1,115</b>	<b>1,523</b>	<b>1,779</b>
Growth (%)	9.3	41.8	36.5	16.8
Depreciation	184	227	279	319
Other Income (net)	11	(27)	(7)	(7)
PBT	614	862	1,237	1,453
Total Tax	130	147	268	315
Adjusted 'PAT	456	662	918	1,087
Growth (%)	3	45	39	18
Adjusted EPS (₹)	73.3	106.5	147.8	175.0
Growth (%)	2.6	45.3	38.8	18.4

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Profit before Tax	614	862	1,237	1,453
Add: Depreciation	184	227	279	319
(Inc)/dec in Current Assets	(160)	(392)	(457)	(315)
Inc/(dec) in CL and Provisions	-	217	583	234
Taxes paid	(168)	(265)	(268)	(315)
<b>CF from operating activities</b>	<b>762</b>	<b>766</b>	<b>1,374</b>	<b>1,376</b>
(Inc)/dec in Investments	-	-	-	-
(Inc)/dec in Fixed Assets	(78)	(154)	(151)	(173)
Others	7	2	(7)	(7)
<b>CF from investing activities</b>	<b>(235)</b>	<b>(956)</b>	<b>(158)</b>	<b>(180)</b>
Issue/(Buy back) of Equity	-	5	-	-
Inc/(dec) in loan funds	(62)	(45)	-	-
Dividend paid & dividend tax	(69)	(375)	(413)	(489)
<b>CF from financing activities</b>	<b>(553)</b>	<b>(156)</b>	<b>(563)</b>	<b>(639)</b>
Net Cash flow	(26)	(347)	652	556
Exchange difference	-	(7)	-	-
Opening Cash	826	812	454	1,106
<b>Closing Cash</b>	<b>812</b>	<b>454</b>	<b>1,106</b>	<b>1,662</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	61	61	61	61
Reserve and Surplus	2,406	2,672	3,177	3,775
Total Shareholders funds	2,466	2,733	3,238	3,836
Total Debt	1	337	337	337
Provisions	70	105	105	105
Minority Interest / Other non CL	102	197	247	297
<b>Total Liabilities</b>	<b>2,638</b>	<b>3,371</b>	<b>3,926</b>	<b>4,575</b>
<b>Assets</b>				
Net Block	598	996	547	551
Capital WIP	0	9	9	9
Total Fixed Assets	598	1,005	556	560
Goodwill	423	1,071	1,071	1,071
Deferred tax assets	155	155	155	155
Debtors	890	1,389	1,521	1,740
Other Current Assets	415	378	710	813
Cash	812	454	1,106	1,662
Current Investments	12	-	-	-
Total Current Assets	2,130	2,221	3,337	4,215
Trade payables	372	652	637	728
Other current liabilities	480	480	949	1,086
Short term provisions	23	32	38	44
Total Current Liabilities	875	1,164	1,624	1,858
Net Current Assets	1,255	1,057	1,713	2,357
<b>Application of Funds</b>	<b>2,638</b>	<b>3,371</b>	<b>3,927</b>	<b>4,575</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	73.3	106.5	147.8	175.0
DPS	24	49	68	81
Cash per Share	130.7	73.0	178.0	267.5
BV per share (Diluted)	396.7	439.9	521.2	617.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.9	17.3	19.1	19.5
PBT Margin	13.2	13.4	15.5	15.9
PAT Margin	9.8	10.3	11.5	11.9
Debtor days	70	79	70	70
Creditor days	29	37	29	29
<b>Return Ratios (%)</b>				
RoE	18.5	24.2	28.4	28.3
RoCE	23.3	25.6	31.5	31.8
RoIC	33.2	29.3	48.0	54.5
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	49.9	34.3	24.7	20.9
EV / EBITDA	27.8	20.3	14.4	12.0
EV / Net Sales	4.7	3.5	2.8	2.3
Market Cap / Sales	4.9	3.5	2.9	2.5
Price to Book Value	9.2	8.3	7.0	5.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.3	0.2	0.2
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	1.5	1.5	1.4	1.4
Quick Ratio	1.5	1.5	1.4	1.4

Source: Company, ICICI Direct Research

**Exhibit 10: ICICI Direct coverage universe (IT)**

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,059	1,220	HOLD	287,282	49.8	51.4	55.4	21.2	20.6	19.1	24.2	25.2	26.1	21.8	21.3	22.0
Infosys (INFTEC)	1,509	2,000	HOLD	634,902	52.1	61.0	71.1	29.0	24.7	21.2	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,411	4,120	HOLD	1,261,746	104.7	119.3	133.0	32.6	28.6	25.6	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,214	1,850	BUY	117,937	64.7	76.8	86.2	18.7	15.8	14.1	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	474	575	HOLD	259,703	22.3	24.5	27.4	21.3	19.3	17.3	18.1	19.8	21.2	18.6	19.6	21.1
LTI (LTINFNC)	4,165	4,990	HOLD	72,982	130.8	140.3	165.9	31.8	29.7	25.1	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	2,954	3,700	HOLD	48,690	100.3	109.8	127.9	29.5	26.9	23.1	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,657	4,370	BUY	22,270	106.5	147.8	175.0	34.3	24.7	20.9	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,448	4,500	BUY	5,894	68.2	101.0	125.1	50.6	34.1	27.6	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	3,532	5,800	BUY	44,392	37.1	51.0	55.1	95.3	69.3	64.1	13.1	16.7	16.7	9.9	12.6	12.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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