

Healthy fresh order intake

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%)

Q1FY23 Results: Coforge reported decent Q1FY23 results

- Dollar revenues increased 2.7% QoQ (4.7% QoQ CC growth)
- EBITDA margin declined by 294 bps QoQ to 16%
- Increased revenue guidance to **at least** 20% CC revenue growth in FY23

What should investors do? Coforge's share price has grown by ~6.9x over the past five years (from ~₹ 544 in July 2017 to ~₹ 3740 levels in July 2022).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value Coforge at ₹ 4375 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
- 220 bps improvement in margins over FY22-24E due to offshoring, higher fresher additions and utilisation improvement

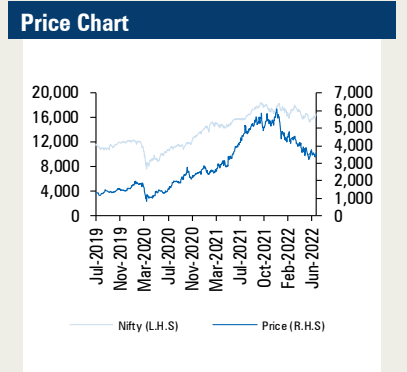
Alternate Stock Idea: Apart from Coforge, in our IT coverage we also like LTI.

- 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 ₹ 4,480



Particulars	
Particular	Amount
Market Capitalisation (₹ Crore)	23,249
Total Debt (₹ Crore)	336.5
Cash & Investment (₹ Crore)	453.5
EV (₹ Crore)	23,132
52 week H/L	6133/ 3224
Equity capital	60.9
Face value	10.0

Shareholding pattern				
	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	50	50	40	40
FII	21	19	22	22
DII	18	20	25	26
Public	11	11	12	12



- ### Recent event & key risks
- Guiding for at least 20% CC revenue growth in FY23
 - **Key Risk:** (i) Deceleration in deal pipeline, (ii) Lower than expected margins.

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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	52.4	51.0	35.1		25.3	21.4	
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 2.7% QoQ to US\$238.7 million (4.7% QoQ growth in CC) while rupee revenues grew 5% QoQ to ₹ 1,829.4 crore. Geography wise, the revenue growth for the quarter was driven by America region, which reported 5.6% QoQ growth while EMEA region reported 4.8% QoQ decline.
- Vertical wise, BFS & Others reported strong revenue growth of 9.4% & 8.5% QoQ respectively while Insurance & Transportation were laggards with decline in revenue of 7.7% & 0.9% QoQ respectively. Revenue from Top 5 customers increased by 1.82% QoQ while that of Top 10 customers increased by 4.18%. Clients with revenue above US\$10 mn & revenue between US\$5-10 mn increased by 4 each on YoY basis
- The company is also indicated that in case of any macro headwinds in the future, only ADM service line vulnerable to any tech spend cut, while they do not foresee any major impact on the other service lines
- The margins for the quarter were down by ~300bps QoQ impacted by I) wage hike (-250bps) impact and increase in SG&A expenses (-100bps) impact. The company indicated that margins are expected to recover 150 to 200bps in the subsequent quarter. Key margin levers are i) continued focus on offshoring revenue as revenue mix in offshoring has increased from 40.1% in Q1FY22 to 48% in Q1FY23 ii) Fresher's added in FY22 are expected to become billable in subsequent quarters iii) utilisation improvement
- The company upgraded its guidance from 20% CC revenue growth in FY23 to **at least** 20% CC revenue growth in FY23. The company also maintained its EBITDA margin guidance at 18.5%-19%. The company mentioned that its guidance on both revenues and margins fully factored in any weakness on global macros and subsequent moderation of tech spending, if any. The company also mentioned that it has given higher salary hike this year while it does not foresee any abrupt increase in attrition in the foreseeable future
- The company indicated that BFS growth continued to be strong on account of healthy deal wins in the previous quarters. The company had won a large US\$105mn deal in Q1FY22, to be delivered over 4 years, While the scope of work includes all of its core transformation capabilities across Enterprise Architecture, Industry consulting, Data architecture, Cloud engineering, Digital integration and Intelligent automation. It was followed by another US\$50mn deal in Q4 in BFS space. On insurance side, the growth was muted for the quarter due to one client specific issue and the company mentioned that Insurance vertical is expected to recover in Q2
- Management indicated that Travel vertical has recovered from the pandemic related issues and revenues in this segment already crossed pre-pandemic revenue numbers. It also said that muted numbers for this vertical in this quarter should be looked in the context of strong 15.2% QoQ growth in the base quarter. The company says that cloud transformation, incremental use of contact less technology at the airports and automation are some of the key spending areas in this vertical.
- The company indicated that minority interest for the quarter has increased because of improving profitability at the SLK global. The company also mentioned that profitability at SLK global has been improving because company's focus on the automation which is also reflection of headcount reduction.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue in USD	238.7	239.4	199.7	19.5	232.4	2.7	Revenue increased by 4.7% QoQ in CC terms
Revenue	1,829.4	1,848.0	1,461.6	25.2	1,742.9	5.0	
Employee expenses	1,273.9	1,256.6	1,025.0	24.3	1,162.0	9.6	
Gross Margin	555.5	591.3	436.6	27.2	580.9	-4.4	
Gross margin (%)	30.4	32.0	29.9	49 bps	33.3	-296 bps	
SG&A expenses	263.7	277.2	226.2	16.6	251.6	4.8	
EBITDA	291.8	314.2	210.4	38.7	329.3	-11.4	
EBITDA Margin (%)	16.0	17.0	14.4	156 bps	18.9	-294 bps	Margin were down by ~300bps QoQ impacted by I) wage hike (-250bps) impact and increase in SG&A expenses (-100bps) impact
Depreciation & amortisation	63.0	64.7	52.4	20.2	58.4	7.9	
EBIT	228.8	249.5	158.0	44.8	270.9	-15.5	
EBIT Margin (%)	12.5	13.5	10.8	170 bps	15.5	-304 bps	
Other income (less interest)	-7.6	5.0	5.2	-246.2	-11.9	-36.1	
PBT	221.2	254.5	163.2	35.5	259.0	-14.6	
Tax paid	49.3	38.2	32.0	54.1	34.2	44.2	
PAT	149.7	199.3	123.6	21.1	207.7	-27.9	

Source: Company, ICICI Direct Research

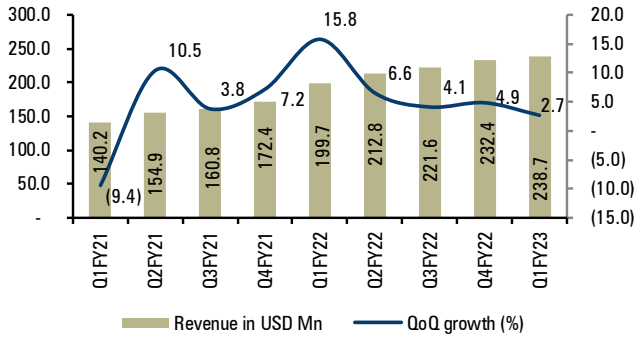
Exhibit 2: Change in estimates

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,972	7,972	0.0	9,123	9,123	0.0	
EBITDA	1,522.7	1,523	0.0	1,778.9	1,779	0.0	
EBITDA Margin (%)	19.1	19.1	0 bps	19.5	19.5	0 bps	
PAT	918.3	918	0.0	1,087	1,087	0.0	
EPS (₹)	147.8	147.8	0.0	175.0	175.0	0.0	

Source: Company, ICICI Direct Research

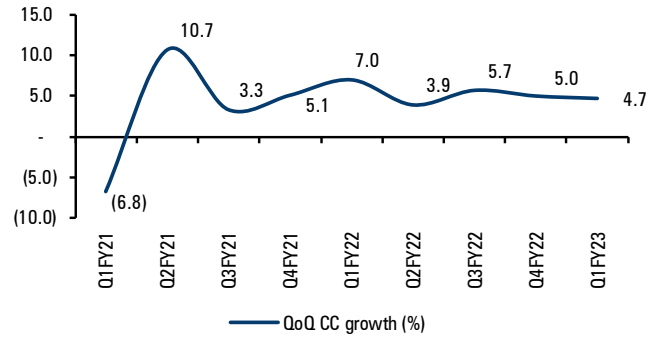
Key quarterly highlights

Exhibit 3: Revenue with QoQ growth



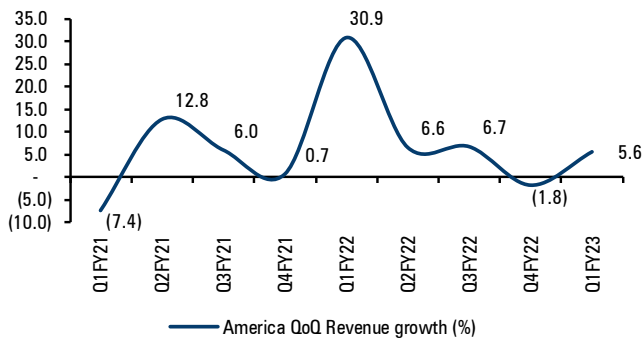
Source: Company, ICICI Direct Research

Exhibit 4: QoQ CC growth



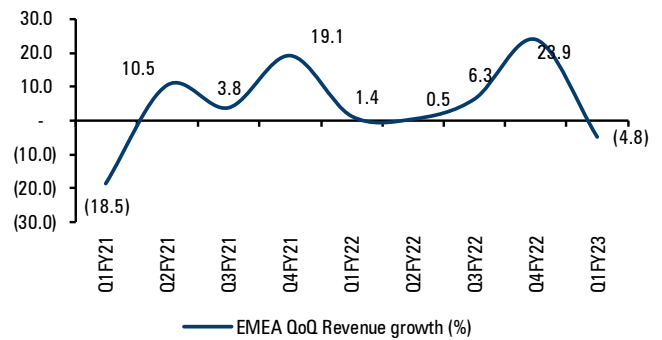
Source: Company, ICICI Direct Research

Exhibit 5: America QoQ growth



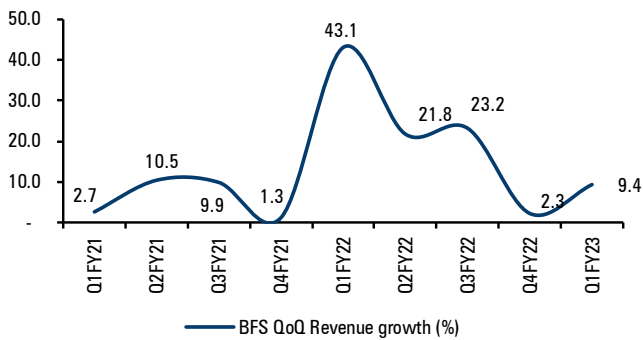
Source: Company, ICICI Direct Research

Exhibit 6: EMEA QoQ growth



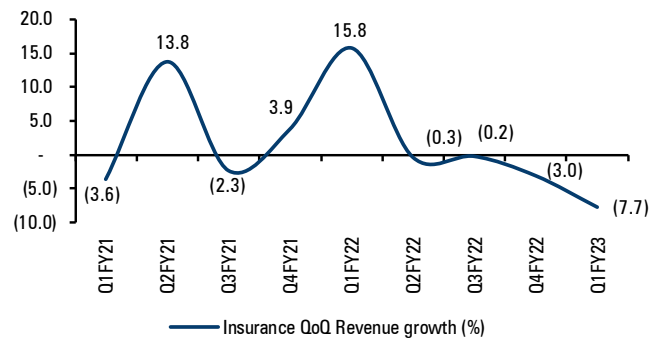
Source: Company, ICICI Direct Research

Exhibit 7: BFS QoQ growth



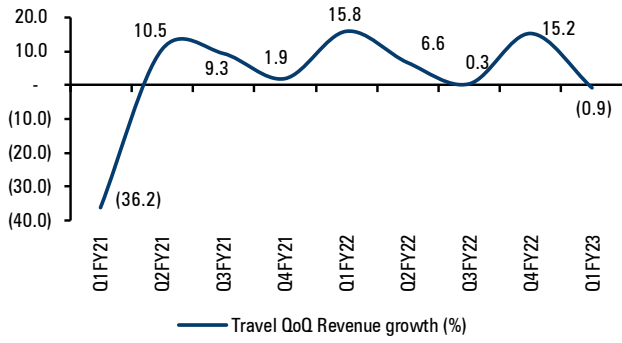
Source: Company, ICICI Direct Research

Exhibit 8: Insurance QoQ growth



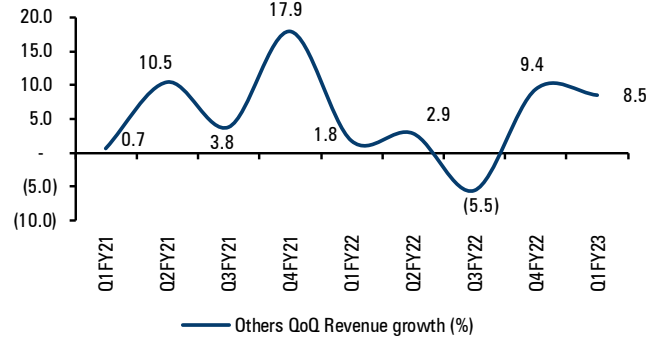
Source: Company, ICICI Direct Research

Exhibit 9: Travel QoQ growth



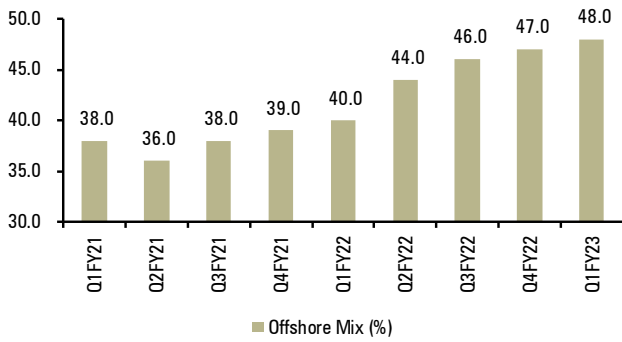
Source: Company, ICICI Direct Research

Exhibit 10: Others QoQ growth



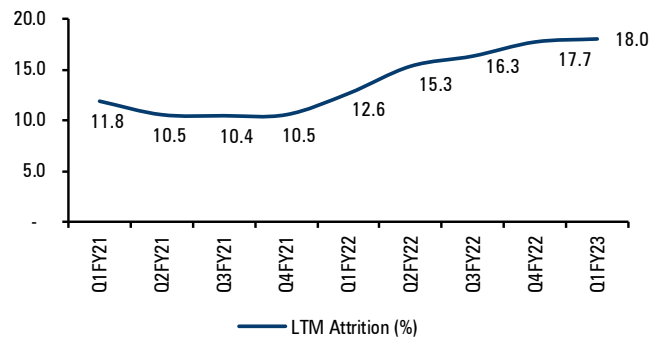
Source: Company, ICICI Direct Research

Exhibit 11: Offshore Mix



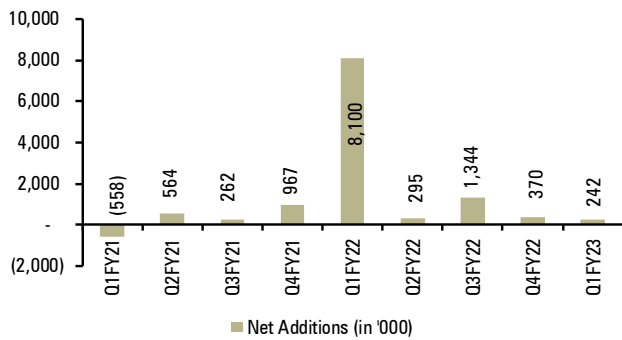
Source: Company, ICICI Direct Research

Exhibit 12: LTM Attrition



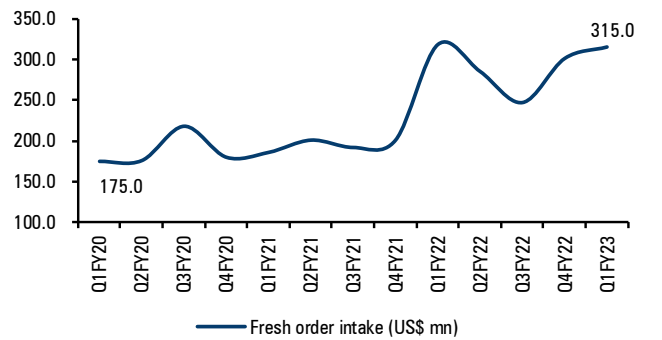
Source: Company, ICICI Direct Research

Exhibit 13: Net employee additions



Source: Company, ICICI Direct Research

Exhibit 14: Fresh order intake



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement					₹ crore
	FY21	FY22	FY23E	FY24E	
Total operating income	4,663	6,432	7,972	9,123	
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	
EBITDA	786	1,115	1,523	1,779	
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 16: 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)	
CF from operating activities	762	766	1,374	1,376	
(Inc)/dec in Investments	-	-	-	-	
(Inc)/dec in Fixed Assets	(78)	(154)	(151)	(173)	
Others	7	2	(7)	(7)	
CF from investing activities	(235)	(956)	(158)	(180)	
Issue/(Buy back) of Equity	-	5	-	-	
Inc/(dec) in loan funds	(62)	(45)	-	-	
Dividend paid & dividend tax	(69)	(375)	(413)	(489)	
CF from financing activities	(553)	(156)	(563)	(639)	
Net Cash flow	(26)	(347)	652	556	
Exchange difference	-	(7)	-	-	
Opening Cash	826	812	454	1,106	
Closing Cash	812	454	1,106	1,662	

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
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	
Total Liabilities	2,638	3,371	3,926	4,575	
Assets					
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	
Application of Funds	2,638	3,371	3,926	4,575	

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
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	
Operating Ratios (%)					
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	
Return Ratios (%)					
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	
Valuation Ratios (x)					
P/E (Adjusted)	51.0	35.1	25.3	21.4	
EV / EBITDA	28.5	20.7	14.8	12.3	
EV / Net Sales	4.8	3.6	2.8	2.4	
Market Cap / Sales	5.0	3.6	2.9	2.5	
Price to Book Value	9.4	8.5	7.2	6.1	
Solvency Ratios					
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 19: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	924	1,050	HOLD	2,50,851	49.8	50.5	55.2	18.5	18.3	16.8	24.2	24.8	26.0	21.8	21.0	21.9
Infosys (INFTEC)	1,533	1,745	BUY	6,44,965	52.1	58.2	67.1	29.4	26.3	22.8	36.0	35.2	37.7	29.2	29.2	31.2
TCS (TCS)	3,178	3,785	BUY	11,62,737	104.7	115.1	130.4	30.3	27.6	24.4	51.4	49.2	48.7	43.0	41.9	41.0
Tech M (TECMAH)	1,032	1,190	BUY	1,00,398	63.1	68.5	79.5	16.4	15.1	13.0	22.5	22.5	23.0	20.7	20.0	20.6
Wipro (WIPRO)	414	460	HOLD	2,26,980	22.3	23.3	27.1	18.6	17.8	15.3	18.8	18.9	21.0	19.6	18.7	20.8
LTI (LTINFNC)	4,531	4,480	HOLD	79,399	130.8	140.3	165.9	34.6	32.3	27.3	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,216	3,320	BUY	53,008	100.3	109.8	127.9	32.1	29.3	25.2	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,740	4,375	BUY	22,778	106.5	147.8	175.0	35.1	25.3	21.4	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,645	4,025	BUY	6,232	22.5	95.0	125.4	162.2	38.4	29.1	15.4	19.2	20.7	(4.7)	18.9	20.2
Infoedge (INFEDG)	4,157	4,575	BUY	52,242	35.8	41.6	45.5	116.2	99.9	91.4	4.2	5.0	5.3	3.2	3.8	4.0

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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